Arbitrability of intellectual property disputes: setting the scene?

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In Eros International Media Limited v. Telemax Links India Pvt. Ltd., the Bombay High Court recently considered the arbitrability of disputes involving intellectual property rights. In this post, we analyze this decision and highlight potential concerns arising from it.

I. Arbitrability in India

In *Booz Allen & Hamilton Inc. v. SBI Home Finance Ltd.* ("Booz Allen"), the Supreme Court of India set out a "rights test" for determining arbitrability under Indian law. It observed that disputes involving rights in rem (i.e. disputes concerning rights exercisable against the world at large) are not arbitrable, while disputes concerning rights *in personam* (i.e. rights exercisable against specific persons) are arbitrable. Importantly, the Court noted that "[d]isputes relating to *subordinate rights in personam arising from rights in rem* have always been considered to be arbitrable" (emphasis added). Thus, according to the Court, arbitrability was to be determined on the basis of the rights in question.

In two subsequent decisions however, the Delhi High Court (in *HDFC Bank v Satpal Singh*) and Bombay High Court (in *Rakesh Malhotra v Rajinder Malhotra*), although purporting to follow Booz Allen, set out a different, "remedies test" to determine arbitrability. According to these decisions, if the relief sought was *in personam* and one which could be granted by an ordinary civil court, the dispute would be arbitrable.

II. Eros v. Telemax

A. Facts

Telemax and Eros entered into an agreement ("Term Sheet") for exclusive licensing of certain copyrighted material belonging to Eros. The Term Sheet contained an arbitration agreement referring "any dispute or difference arising out of or in connection with" the Term Sheet to arbitration.

Subsequently, Eros alleged that Telemax had infringed Eros' copyright. It filed a civil suit for infringement in the Bombay High Court. On its part, Telemax requested the Court to refer the matter to arbitration on the basis of the arbitration agreement contained in the Term Sheet.

B. Arguments of the Parties

Telemax submitted that there was no bar to the arbitrability of the dispute as it was not a simple copyright infringement dispute but rather a dispute concerning rights arising out of a contract (the Term Sheet) between the Parties and the remedies sought by Telemax were not in rem. It pointed out that pursuant to the *dictum* in the *Booz Allen* case, all civil disputes were generally arbitrable except those that were specifically excluded.

By contrast, Eros submitted that the dispute was not arbitrable, as it involved copyrights, which were rights *in rem*. Specifically, there was an absolute bar on an arbitral tribunal rendering a finding of infringement of copyright.

C. Decision of the Court

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At the outset, the Court remarked that as the Parties had agreed to arbitrate their disputes, they should ordinarily be referred to arbitration. As to the specific issue at hand, the Court held that arbitrability was to be decided on the basis of the "nature of the claim". Adopting a pro-arbitration stance, the Court directed the Parties to arbitrate their disputes for two broad reasons. First, the right being asserted by Eros was a right *in personam*, since any finding of infringement (or the lack thereof) by Telemax of Eros' copyright would be valid only as against Telemax, and not any third party. Eros' claim was thus fundamentally different than a claim contesting an entitlement to a copyright (which would constitute a right *in rem*). Secondly, the arbitrator could grant both the reliefs sought by Eros, viz. damages and permanent injunction against the use of copyrighted material in future. In sum, as Eros' action concerned "a specific particularized relief against a particular defined party", which would

not give it any rights against the world at large, the Court found that Eros' action was not *in rem* but *in personam*. On this basis, the Court concluded that the dispute between the Parties was arbitrable.

III. Issues for consideration

The decision is a positive development for arbitration in India. For one, the Court gave full effect to the Parties' arbitration agreement. Besides, by undertaking a refined analysis of the precise nature of the dispute between the Parties, the Court ensured that purely contractual disputes are not rendered non-arbitrable simply because they involve a consideration of rights *in rem*, including intellectual property rights.

Further, for the purposes of arbitrability, the Court effectively applied the distinction between rights *in rem* (i.e. the entitlement to the copyright or registration of a trademark) and the subordinate rights flowing from such entitlement (i.e. the right against infringement of copyright or trademark). Indeed, this distinction is also made in *Mustill and Boyd* (in the context of patents) in an excerpt which was quoted with approval in *Booz Allen*. In addition to the "rights" test, the Court also applied the "remedies" test, unlike the two earlier decisions of the Bombay and Delhi High Courts which had solely applied the "rights" test.

Given that disputes concerning infringement of intellectual property rights are now arbitrable, some crucial issues arise. In an infringement action, a counterclaim may be made contesting the entitlement to the copyright (or the registration of a trademark). In such a scenario, since the right as well as the relief sought is *in rem*, the counterclaim would not be arbitrable, and the parties would have to turn to the relevant forum for resolution of that claim. It is not clear what effect this would have on the arbitral tribunal hearing the infringement action. While some have argued that it would render the entire dispute non-arbitrable, a better solution may be for the tribunal to stay the infringement action, until the forum decides on the validity of the copyright/trademark in question. This is, however, far from ideal as it would delay the arbitration and substantially increase costs.

The Eros decision is presently stayed, pending appeal. The Supreme Court of India may be eventually called upon to consider the issue, which would be a good opportunity for it to clarify the limits of arbitrability in India.

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