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LEGAL FRAMEWORK OF PATENT ARBITRATION: A COMPARATIVE PERSPECTIVE

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Abstract

Arbitration has not been proved to be favorable and it reduces the patent case burden of the public courts. There are few countries that showed enthusiasm in the patent arbitration but there were some legal barriers, especially at the global perspectives which challenge enthusiastic individuals in this particular dispute resolution method.

The very first part of this paper focuses on the barriers which are prevailing to aid legislators, scholars to deal with associated issues concerning the law on the patent as well as arbitration. The second part of this paper scrutinizes the recent legal status in India, China as well as the United States regarding patent arbitration.

Keywords: Patent arbitration, dispute resolution, infringement, arbitrability, arbitration proceedings.

I) STATUS AND DEFINITION OF PATENT ARBITRATION

There are many benefits of arbitration in comparison to litigation in the courts. The main advantage is its precision because it ignores the probability that an international territorial dispute can occur[1] or that a court would have to apply foreign laws. The parties to the arbitration are also provided freedom to select the forum of their choice. In the case of arbitration, parties can select arbitrators who are not nationals of their home states[2] and can also opt locus of arbitration but this is not the case in the proceedings of the court.

[1]Scherk v. Alberto-Culver Co.
[2]UNCITRAL Model Law on Commercial Arbitration.

Due to the adoption of the New York Convention, that is, Convention on the Recognition and Enforcement of Foreign Awards, implementation of arbitral awards becomes easier. Under this, courts are under obligation to implement the arbitral award which was awarded by the foreign country's law, subject to the following conditions:

1) That the arbitral award must be granted within the jurisdiction of arbitrators[3].
2) That the arbitral award should not contravene public policy principles[4].
3) That the arbitral proceedings should conform to the fairness requirements[5].
4) That the arbitral award must be such which can be exposed to arbitration[6].

A patent arbitration is a kind of commercial arbitration that covers some concerns of the substantive patent law. Issues relating to patent arbitration deals particularly with personal property issues like licensing as well as the assignment of the patent. The main focus of this paper is on arbitration proceedings that do the violation of the patents.

The WIPO (World Intellectual Property Organization) provides for Arbitration and Mediation Centre that takes care of the cases on arbitration related to patents. This Centre has handled many cases concerning violation of patents, especially of European as well as United States patents[7].

II) PATENT ARBITRATION IN INDIA

a) Arbitrability

There is no settled position in India regardingthe arbitration of patent claims. Section-103 of the Indian Patent Act, 1970[8]thatis relevant in cases where the Government is desirous to make use of the invention that is patented. This section allows the court to direct any dispute (including the issue of the validity of patents) to the arbitration[9]. Except for this particular

[3] The New York Convention Article V (1) (c) which talks about the jurisdiction.
[4]The New York Convention Article V (2) (b) which deals with principles of public policy.
[5]The New York Convention Article V (1) (b) which refers to requisites of fairness.
[6]The New York Convention Article V (2) (a).
[7] Till today almost all of these cases have included agreement on arbitration.
[8] The Indians Patent Amendment Act of 2005.
[9]Section-103 of The Indian Patent Act, 1970.

section, the entire Arbitration and Conciliation Act[10] as well as India Patent Act does not talk anything about the implementation of arbitral awards concerning the results of violation of patents.

On the view of patent law arbitration, there is a divergence of opinions. According to one view, patent violation disputes and legality disputes[11] are not arbitral as courts have exclusionary jurisdiction to decide patent issues[12]. Another view was that since an arbitral award nullifying patent might be incapable of implementation, courts might be desirous of implementing arbitral awards regarding violation simply due to the reason that such arbitral award has an impact only on the inter parties.

Further, there was a view that patent revocation cannot be arbitral as it diminishes the legal rights that accompany the patent issuance. Under the Indian Patent Act, 1970 the Intellectual Property Appellate Board has been provided jurisdiction for the revocation of patent[13]. Further, the Act confers jurisdiction on the High Court to handle violation disputes in cases where the defendant provides counterclaim for patent revocation[14].

It was supervised by the Ayyangar Committee to recommend revisions in the 1950s to the Patent Act. The Committee then perceived the probability that the inferior courts may generate contradictory results concerning the legality of patents[15]. It was further recommended by the Ayyangar Committee that the disputes relating to patent revocation should be brought before the High Court[16].

Depending upon the reasons provided by the Ayyangar Committee, Indian courts are not likely to implement an arbitral award that is revoking Indian patents[17] but at the same time, they may implement an arbitral award involving results of violation.

b) Arbitration law

[10] Case No. 26, C.I.S., 1996.
[11] Fabcon Corporation v. Indus. Engineering Corporation.
[12]The Interview conducted in 2015 with the Association of Ameet Datta.
[13] The Indian Patents Act, as amended in 2000.
[14] The Indian Patents Act of 1970.
[15]Ayyangar Report of 1959.
[16]Fabcon Corporation v. Indus. Engineering Corporation.
[17]Nath v. Nath.

The Arbitration and Conciliation Act was enforced to update Indian law so that it may comply with UNCITRAL Model Law[18]. This Act is applies to all the national as well as international proceedings relating to arbitration in India. It strengthens the laws on international commercial arbitration, national arbitration as well as the implementation of foreign arbitral award[19].

The courts usually adopt the tendency of not interfering with the agreement of the parties to arbitrateand also the court mainly permits applications to indicate the concerns in adispute[20] relating to arbitration. Moreover, under the Arbitration and Conciliation Act, a very narrow power has been given to the court to override an arbitral award. The opinion adopted by the courts in India is that the award made by the arbitrator is conclusive and also binds the parties.

There are two conditions under which courts in India are allowed to deny the implementation of the arbitral award. They are:

a) If the arbitral tribunal lacks jurisdiction and made the arbitral award over appropriate jurisdiction[21].

b) If the judgment of the tribunal has not arrived in a systematically fair manner where both the parties had been given equal chance of being heard (*audi alteram partem).*

c) Impact of an arbitral award in later proceedings

As discussed above, an arbitral award is conclusive as well as binding on the parties and their privies[22]. When we consider the arbitration agreement betwixt the parties, it can be concluded that "a valid award is conclusive evidence of the law as well as of facts found by it". By adhering to the concept of res judicata, it is clear that none of the party to the arbitration agreement can again litigate upon the claims which had been arbitrated in any successive proceeding, whether before any other arbitral tribunal[23] or before any court of law. However, the claims which could have been brought earlier but had not been brought earlier by the parties, those claims can be estopped.

[18]The Preamble of the Indian Arbitration Act.
[19] There is a difference betwixt UNCITRAL Model law and Indian Arbitration Law. See UNCITRAL Model Law.
[20] P. Gajapathi Raju v. P.V.G. Raju.
[21] Kapur v. Kapur.
[22] The Indian Arbitration Act of 1996.
[23] K.V. George v. Secretary to the Government, Water & Power Department.

A current judgment was pronounced by the Indian Supreme Court wherein it was observed by the court that the person who is not a signatory to the arbitration agreement will not be responsible to adhere by the decision of the tribunal[24].

d) Confidentiality

The Arbitration and Conciliation Act necessitates that the proceedings of the arbitration and arbitral awards must be confidential[25]. But, there is no necessity to keep the arbitral award confidential if disclosing it is essential for enforcement as well as implementation[26].

e) Choice of laws

The Arbitration and Conciliation Act lies down that the conflict is ruled by the Indian law only if both the parties to the dispute are of Indian origin[27]. So, in cases of patent controversy betwixt two Indian parties, the Indian Patent Act will be the appropriate substantive law. Moreover, if the conflict is related to the Indian patent then a court has the option to deny the implementation of an arbitral award that is based on foreign law on the ground that it is in contravention to the Indian public policy[28].

f) Available Remedies

Indian courts may enforce a huge range of remedies in the disputes relating to the violation of patents, including a temporary or permanent injunction against any further violation of patent, an account of profits or damages as well as seizing and demolition of violating goods whose aim is to affect the violation[29]. As arbitral tribunals are allowed to grant the temporary or permanent injunction and also damages, these remedies must be given to the arbitral tribunal who is solving disputes relating to the violation of the patent.

[24] Sukanya Holdings v. Pandya.
[25] The Indian Arbitration Act, 1996, Article 34 (2) (b) (ii) which provides for confidentiality provision.
[26] Ibid.
[27] The Indian Arbitration Act of 1996, Article 28 (1) (a) which talks about which law to be adopted by the parties in the arbitration disputes.
[28] Ibid.
[29] The Indian Patents Act of 1970.

III) PATENT

ARBITRATION IN USA

a) Arbitrability

The US Patent Act permits the patent arbitration in cases of legality, violation[30] as well as intervention claims. Any arbitration if occurring between the parties on these issues and if the award is given by the arbitrator then that award is valid between those parties. There is a requirement to submit a notice of award relating to patent to the United States Patent and Trademark Office. But, the award will not be enforceable[31] until the notice has been submitted. As soon as the submission is made, a notice of award will be made accessible to the public[32] at large and it will also be included in the patent file.

Till 1994, all the examinations done by the United States International Trade Commission on the infringement of intellectual property rights by the importation of the foreign goods could not stay while the arbitration is pending. In the landmark case of *Farel Corporation v/s International Trade Commission*, it was observed that arbitration agreement can also relinquish the right of the judicial branch but cannot relinquish rights of administrative branch-like ITC.

b) Arbitration law

All the patent arbitration done in the US is subjected to the Federal Arbitration Act (FAA). Almost all the US states have their laws on arbitration that govern proceedings in cases where the issues of substantive patent law are not implicated and the agreement on arbitration has no impact on interstate commerce. The Supreme Court of the US has many times confirmed that there is the existence of federal policy which favors arbitration[33]. Under the Federal Arbitration Act, US court challenged with an agreement of arbitration must refer the parties thereby to arbitrate, until one of those parties confronts agreement on arbitration. If there is no such confrontation then, in that case,the court has no choice but it has to allow the arbitration.

[30]The US Patent Law of 1790.
[31] Ibid.
[32]The US Patent Law of 1790.
[33] Moses H. Cone Memorial Hospital v. Mercury Construction Co.

In case of a review of the arbitral award, very narrow power has been granted to the courts[34]. A federal court has the power to quash the arbitral award if the award has been obtained by fraud[35], if there is evidence that the Tribunal[36] was biased, if the arbitrator does anything above their powers[37], if the award is regarded as disregard of law[38] or if the arbitrator does not provide conclusive award[39].

Further, the International award can only be quashed under the guidelines of the New York Convention. There is also a separate Court of Appeals for the issues related to patent in the US which is known as Court of Appeals for the Federal Circuit (CAFC)[40]. If there is a case that is related to patent as well as a non-patent issue then CAFC has jurisdiction in case of appeal but they are also capable to apply the law of original jurisdiction in cases of non-patent issues.

c) Impact of an arbitral award in later proceedings

It is stated in the US Patent Act that the patent arbitral award will be conclusive and parties will be bound by that award but that award will have no value or impact on any third person. It is pertinent to mention here that the US statutory law restricts only the impact of the arbitral award upon the third person.

The evidence produced and the positions occupied in the arbitration can also impact the going on the prosecution of the patent application and this is the main concern in the US and here the patent applicants have to provide all the known information relevant to the patentability. If the applicant fails to provide the information then it may be rejected by the Patent and Trademark Office or the court may declare it to be invalid.

In the US also, the concept of res judicata applies between the parties to the arbitration agreement. So, the matter once decided between the parties cannot be again subjected to the litigation.

d) Confidentiality

[34] Chi. Inc. v. Kaplan.
[35] The US Patent Act of 1790, Article 10 (a) (1).
[36] The US Patent Act of 1790, Article 10 (a) (2).
[37] The US Patent Act of 1790, Article 10 (a) (4).
[38] Wilko v. Swan.
[39] Publicis Commission v. True N. Commission Ltd.
[40] The US Patent Act of 1790, Article 295(a) (1).

The issue of confidentiality of patent arbitration has been provided neither in FAA nor in any statutory law of the US. But, it provides only one statutory requirement that is there is a need to file award notice at the US Patent and Trademark Office[41]. The American Arbitration Association also does not provide for confidentiality provision in either its Patent arbitration or its Commercial rules[42]. The elaborate provisions on confidentiality have been provided in the ad hoc rules of the International Institute for Conflict Prevention & Resolution.

Generally, US courts have not stumbled to implement written agreement on confidentiality between the parties in the arbitration. When the information is submitted to the court for implementation then the court is also empowered to seal the information from the arbitration. The party who wants the seal must show the necessity for confidentiality like there is a presence of trade secret, which overrides the assumption that the documents provided to the judicial record are subjected to public scrutiny. But, if the documents are given to the court of appeal then, in that case, it is much more difficult[43] to maintain confidentiality.

e) Choice of laws

The limit up to which the parties may opt for foreign law to deal with their arbitration involving US patent dispute is not clear. It has been ascertained by CAFC that the parties may direct arbitrators to apply foreign laws in cases of patent dispute. It is stated under the patent law that in any proceedings of patent arbitration, the defenses that are given under US patent law shall be taken into consideration by the arbitrator. So, if the arbitration agreement of the parties opts non-US substantive law but the accused violator asks for defense under the US law relating to US patent then the arbitral tribunal is required to apply these defenses and not the defenses provided under the opted foreign law.

f) Available Remedies

Under the US law, the arbitral tribunal has full freedom to design remedies until they are not in contravention to the agreement entered into between the parties. The remedies that can be granted are exemplary or punitive damages and injunctions. But, where the agreement does not speak anything regarding the remedy then the arbitral tribunal has the full amount of

[41]The US Patent Act of 1790, Article 294 (d).
[42] The Rules on Patent Arbitration in 2005.
[43] Baxter International Inc. v. Abbott Laboratory.

remedy which is also available to the courts in the cases of patent violation. The remedies which can be granted in cases of patent violation are reasonable royalties, permanent injunction, costs, damages, lost profits as well in certain cases attorney's fees may also be granted.

IV) PATENT ARBITRATION IN THE PEOPLE'S REPUBLIC OF CHINA

The concept of patent arbitration is not known in China. The doubt of patent legality is an administrative controversy that cannot be solved by arbitration. So, since almost all the disputes related to patent concerns the question of legality, it is clear that patent arbitration does not occur in China. Moreover, China is not interested in recognizing the foreign arbitral award concerning patent legality simply because China is not under an obligation to do so as per the provisions of the New York Convention.

In China, disputes related to patents are classified into two groups, that is, civil (patent violation)[44] and administrative (patent legality). Issues related to patent legality are managed by the courts of people[45] and by the administrative organ of the state and so they are considered not to be arbitrable[46]. Infringement claims are regarded as arbitral in theoretical context[47]. Practically, the defense of invalidity taken by the infringer removes the controversial issue from the jurisdiction of the Tribunal. Thereby, parties who are involved in patent disputes related to the violation and legality must go to the courts or the administrative organ of the state. Moreover, parties to a dispute related to the property rights can submit their disputes to the arbitration that will be binding and they can also wish that the award be enforced[48].

The arbitration law of China is not clear regarding the issue that whether the Arbitral Tribunal has the power to direct particular issues, like patent legality, to the courts while they

[44] J. Guangdong Institution of Public Administration.
[45] The Chinese Patent Law of 1984.
[46] The Arbitration Law of China of 1994.
[47] The People's Republic of China Patent Law, 1984.
[48] The People's Republic of China Arbitration Law, 1994.

are maintaining jurisdiction over all other issues. It is believed that the arbitral tribunal can adopt this proposition upon the agreement with the parties. But, in cases where there is no agreement relating to the issues to be directed to the court, then, in that case, it becomes very problematic to decide whether any particular issue has to be concluded by the courts or by the arbitral tribunal.

Foreign arbitral awards that are asserting to decide the legality of China's patent are not likely to be implemented. Under the New York Convention, all the authorities in the signatory states are given the power to deny implementation of awards if the subject matter of the dispute "is not having a capacity of being settled by the arbitration as per the law of that country"[49].

A choice to patent arbitration in China can be Court-conducted conciliation proceedings. The court is empowered to administer the conciliation proceedings[50] provided all the parties are willing. In case the parties arrive at a settlement agreement as per court aegis then the court will grant a Conciliation Statement which has the same legal consequences as a judgment. So, a Conciliation Statement arrived as per court proceedings relating to patent violation and legality is considered as binding and enforceable.

V) TO WHAT EXTENT IP DISPUTES ARBITRABLE IN INDIA

India's stand-in respect for IP disputes arbitration is a bit complex but probable. The extent of remedy that has to be available to the parties in IP arbitration is a matter of debate. In patent disputes, arbitration is provided only for the redressal of disputes yet the arbitration is not commonly used. But, arbitration is not accessible to decide disputes of illegality because the Patent Office does not consider arbitral awards in the patent illegality disputes. Only those patent cases which arise from the contract existing between the parties such as disputes related to patent licensing could be resolved by arbitration.

The most significant point to be noted in cases of IP disputes arbitration is that there is a need to maintain the confidentiality of the dispute among the parties. However, in India, the main

[49] The New York Convention Article V (2) (a).
[50] The People's Republic of China Civil Procedure Law in the year 1986.

problem is to balance the interest of the public on one hand and the interest of parties on the other. So, it can be inferred that any arbitral award which is alleged to be against the Indian public policy can be questioned before the appropriate court of law and further, arbitral awards which are related to the violation or legality of patent could be refused on the ground of its being contrary to the public policy or in contravention to the provisions of statute[51].

As there are many advantages of using arbitration as a means to resolve IP disputes, at the same time it also suffers from many criticisms. The main criticism is that the arbitral award only binds the parties to the arbitration but it does not set a public precedent to serve as a deterrent to the violation. Moreover, parties also do not resort to arbitration mainly due to searching for the appropriate arbitrator or due to the jurisdictional concerns in cases of international contracts.

The Supreme Court in a very famous judgment of *Booz Allen and Hamilton v. SBI Finance*[52] *pointed the ambit of arbitrable disputes. The Court held that the ambit must be restricted to* '*rights in personam*', that is, an individual rights that can be enforced against a particular individual. In contrast to this, the Court has rejected '*rights in rem*' from the ambit of arbitrable disputes. As per this rationale, the Court recognized a descriptive list of disputes that are not arbitrable: family law disputes, offenses of crime, winding up and insolvency and disputes related to tenancy. Strictly, in this case, the Supreme Court made a clear differentiation of *rem – personam* by stating:

"This is not a rigid or inflexible rule. Disputes which are concerning right in personam are always arbitrable as contrary to right in rem".

In another case of *Steel Authority of India Ltd. v. SKS Ispat and Power Ltd.*,[53] an infringement case was instituted by the plaintiff against the defendant. The plaintiff here demands a permanent injunction against the defendant on the ground that the defendant had violated the registered trademark of the plaintiff. In addition to this, the plaintiff also demands damages from the defendant. The Bombay High Court is considering the application filed by the defendant. As a defense, the defendant instituted a notice of motion as

[51]ONGC Ltd. V. Saw Pipes Ltd.
[52]AIR 2011 SC 250.
[53] Notice of Motion (L) No. 2097 issued in 2014 in the suit No 673.

per Section-8 of the Arbitration and Conciliation Act. As per this notice, the defendant relied upon the agreement entered betwixt the parties.

The application filed under Section-8 was dismissed by the High Court of Bombay on the reasoning that the case was instituted for the violation and passing off. Further, this case arises from the trademark rights and remedies which are treated as right in rem. The court took note of Booze Allen's case and held that matters related to right in rem are not arbitrable and so accordingly the suit was dismissed.

VI) CONCLUSION AND SUGGESTIONS

If we compare the US patent arbitration system and the Indian patent arbitration system, we will observe that there are some similarities as well as some dissimilarities between the two. In India, there is no settled position concerning the arbitration of patent claims and also neither the Indian Patent Act nor the Arbitration and Conciliation Act talks about the implementation of arbitral awards relating to patent disputes. US law, on the other hand, has a specific US Patent Act which specifically permits arbitration of patent disputes.

Further, in India, the confidentiality provision relating to arbitration is specifically provided in Arbitration and Conciliation Act but this is not the case with the US as it does not provide for confidentiality provision either in statutory law or in Federal Arbitration Act.