EROS INTERNATIONAL MEDIA LIMITED V. TELEMAX LINKS INDIA PRIVATE LIMITED- A STEP AHEAD?

- *Vidhi K. Tiwari* & Suman Shetty***

ABSTRACT

The expansion of global trade in the commercial world is the most vital contribution in the factum of preference of arbitration over other adjudication methods. This aspect is not fully developed in India and hence embodies many questions of law unaddressed. One of such questions is regarding arbitrability of Intellectual Property Rights. The Bombay High Court in its significant pronouncement recently held that, in the presence of an arbitration clause in a contract, the disputes arising out of the same involving rights in personam are amenable to arbitration. The Court while delivering the verdict focused on the remedy sought by the parties and as a result gave a distinct approach towards the issue. This commentary proceeds by laying out the facts of the case, identification of the key issues and stating the judgment passed by the Court. In this commentary, an attempt is made by the authors to critically examine the verdict on jurisprudential premises and difference with respect to the existing approach. To conclude with, the authors have made a comparison with the practice followed in different countries in contrast with probable Indian approach.

* Fourth Year Student of B.a. L.Lb (Hons.) at National Law University, Odisha, India.

** Fourth Year Student of B.a. L.Lb (Hons.) at National Law University, Odisha, India.

1. INTRODUCTION

On 12th April, 2016, a single judge bench of the Bombay High Court in a landmark decision upholding the arbitrability of trademark and copyright infringement claims arising out of Commercial Contracts held that, Intellectual Property rights though specials rights are a species of property rights which relate to actions *in personam* and thus are arbitrable in nature.[3] This verdict laid down a different notion from that of Supreme Court and other High Courts with respect to arbitrability.

2. LEGAL HISTORY AND EVOLUTION OF ARBITRABILITY OF IP INFRINGEMENTS

Arbitration in India is not a new trend. The decisions regarding arbitrability of matters have been subject of discussion in Indian courts on many occasions. The issue was addressed in many cases by different High Courts and each of them has expressed different view. The method of adjudication through courts was majorly replaced by alternative dispute resolution methods especially after 2002. One of the major reasons for the change in trend was the enforcement of TRIPS and amendment in Civil Procedure Code. The discretion of referring a matter to alternative dispute resolution methods was conferred upon the courts through enforcement of section 89 of the Civil Procedure Court. An appreciated response can be seen in the statistics where in more than 300 cases were adjudicated by the Supreme Court in a short duration of 2004-2007. Similarly, Delhi high Court adjudicated over 600 cases.

The matter of arbitrability of matters got an opportunity to be adjudicated by the Supreme Court. Few cases where the subject of arbitrability was dealt by the various courts are *K. E. Burgmann A/S v. H.N. Shah and Ors.*[4], *Hero Eco Tech Ltd. And Ors. v. Hero Cycles Ltd. and Ors.*[5], *Ram Krishan and Sons Charitable Trust v. Shaurya Educational Institute /Society and Ors.*[6] and *R.K. Productions Pvt. Ltd. v. M/s. N.K. Theatres Pvt.*

---

3 *Eros International Media Limited* v. *Telemax Links India Pvt. Ltd. and Ors.*, Notice of Motion No. 886 of 2013 (Bombay High Court, 12/04/2016).

4 *K. E. Burgmann A/S* v. *H.N. Shah & Ors.*, 2011(4)ArbLR248(Delhi)

5 *Hero Eco Tech Ltd. & Ors.* v. *Hero Cycles Ltd. and Ors.* MANU/DE/1075/2016.

6 *Ram Krishan & Sons Charitable Trust* v. *Shaurya Educational Institute/Society*, (2011) 1 ArbLR 34(Delhi).

Ltd.[7] In all these matters courts gave decision on various subject matters regarding arbitrability of matters including Trademark, Patents and others. However the first landmark case in which an effort was made by the Supreme Court was *Booz Allen Hamilton v SBI Home Finance*[8]. Bombay High Court has recently refused to follow the test laid down in the Booz Allen Case in two cases. *Booz Allen* case laid down a test which was the first and only instance where Supreme Court dealt with the matter of arbitrability criteria. The court had laid down the test on the basis of the nature of right in question. It stated that right *in rem* can't be adjudicated through arbitration. Only disputes relating to violation of right *in personam* can be adjudicated through arbitration.

The court went to ahead to explain the jurisprudence behind the concept of right *in rem* and right *in personam*. It held that right *in rem* is concerned with a particular thing or status which makes that right enforceable against the world at large whereas a right *in personam* is enforced against a person. Traditionally, right *in rem* can't be rendered arbitrability because of a reason that it is a right available as a member of civilized society and hence can't be restricted to a method where society can't get involved. However, if a matter is interconnected between both right *in rem* and right *in personam* it may be arbitrable. Hence a matter involving infringement of rights can be arbitrable if there involves a breach of contract. Court provided a non-exhaustive list of matters where arbitration is not possible due to the gravity of matter. Few of them are family disputes with regards to the determination of status of a person, guardianship, constitutional matters etc. The court also observed along with above reasoning that the rule is not inflexible. Arbitrability of sub-ordinate rights which arise from ambit of right *in rem* is non-disputed. The crux of test lies on the nature of the right in question and action taken by the parties.

Bombay High Court has given different notion to the whole question of a matter being arbitrable. In case of *Rakesh Kumar Malhotra*,[9] it gave a verdict that if the nature of the relief sought was taken into consideration the matter would not be arbitrable which was not a factor of consideration in application of *Booz Allen* test. Hence a case of oppression and mismanagement would be arbitrable due to the actions

---

7 *R.K. Productions Pvt. Ltd.* v. *M/s. N.K. Theatres Pvt. Ltd.,* (2014) 1 ArbLR 34 (Madras).

8 *Booz Allen Hamilton* v. *SBI Home Finance*, (2011) 5 SCC 532.

9 *Rakesh Kumar Malhotra case*, (2015) 192 CompCas 516(Bom).

which are specifically taken be the company which affects the interest of shareholders if *Booz Allen* test was applied. The reasoning given was that the relief sought is *in rem* and not *in personam*. In such case, the method of arbitration would be ineffective. Court gave an illustration of Companies Act 1956, where due to lack in capacity of the arbitration authority to grant relief under Sec 402 of the same. Bombay High Court focused on the relief sought which made its verdict differ from *Booz Allen* approach.

Once again in the present case, the Bombay High Court got an opportunity to adjudicate the matter in context of the intellectual property rights.

3. BACKGROUND OF THE CASE

The Hon'ble Supreme Court in *Booz Allen* case[10], while deliberating on the term 'arbitrability' held that, the term has a contextual meaning and there are several facets of arbitrability which relate to jurisdiction of the arbitral tribunal. The court observed the facets as, whether the dispute is capable of arbitration, considering the nature of the dispute whether it can be resolved by a private forum or it falls within the exclusive jurisdiction of a court and the most vital, whether the dispute is covered by the arbitration agreement. The arbitral tribunal is a private forum chosen by both the parties for settlement of disputes and every commercial dispute even though contractual or non-contractual, is amenable to be adjudicated and resolved by an arbitration tribunal unless the jurisdiction of the tribunal is excluded. The Court further observed that except certain cases relating to right *in rem*, which are mentioned in the statute as non-arbitrable, other cases which are actions *in personam* are arbitrable in nature.

The Bombay High Court in the present case referred the above discussed case and deliberated on arbitrability of suits relating to actions *in rem* and *in personam*. The Court looked into other authoritative decisions and delivered the judgement in favour of the defendant which will leave no room of doubts in the minds of such parties with regard to the arbitrability of disputes relating to rights *in personam*.

[10] Supra *note* 6.

4. FACTS OF THE CASE

The plaintiff, who was a producer, distributor and exhibitor of several feature films through various media and various modes, had assignment, exclusive licenses and copyright on several feature films. In March 2012, the defendant had approached the plaintiff for grant of content marketing and distribution rights in respect of its films for which it offered ₹ 1.5 crores as a non-refundable minimum guarantee amount. Considering the defendant's sufficient expertise in the business of content distribution to manufacturers, on June 2012, a term sheet was executed between the parties. The term sheet contemplated an exclusive licensing contract along with the execution of a 'Long Form Agreement' which would replace and override the terms and conditions stated in the term sheet. Prima facie the arbitration clause refers to disputes arising out of the Term Sheet and does not limit to disputes arising out of the Long Form Agreement. The plaintiff had filed a suit for copyright action under section 62 of copyright Act [11] claiming exploitation of the copyright by the defendant and challenging the arbitrability of the dispute.

5. ISSUES BEFORE THE COURT

The key issues for adjudication before the court were:

5.1. Whether the Copyright Act ousts the jurisdiction of the Arbitration Panel?

5.2. Whether a copyright infringement claim is an action *in rem*?

5.3. Whether the dispute is of a contractual nature?

6. CONTENTION OF THE PARTIES

6.1. Key Arguments placed by the Plaintiff:

[11] Section 62, of the Copyright Act, 1957.

The plaintiff contended that a copyright infringement claim is inherently a non-arbitrable dispute, as it is not a right which purely arises out of a contract and hence there should be a finding on whether there is a copyright infringement and such adjudication is only within the sphere of the court. To substantiate this argument, the counsel relied on *Management of Montfort Committee of Senior Secondary School*[12] case, when a statute provides for a right and a remedy, it is an exclusive remedy and on such a matter the jurisdiction of the Civil Court cannot be ousted. Further relying on the decision in *Steel Authority of India Ltd.*[13], the counsel contended that a suit for relief in infringement of copyright is not within the jurisdiction of the Arbitrator, disputes relating to copyright infringement and passing off are non-arbitrable the reason being that these are actions involve rights *in rem.*

6.2. Key Arguments placed by the Defendant:

The defendant contended that there is no specific bar on arbitrability of a dispute relating to copyright infringement, disputes mentioned in the Term Sheet and the Arbitration Agreement are amenable for arbitration. The counsel for the defendant referring to the decision in *Booz Allen,*[14] submitted certain cases which are non- arbitrable in nature and argued that the present dispute does not fall within the ambit of such cases. The dispute does not involve actions *in rem,* the reason being that the remedies sought are claims against an individual which are *in personam*. The counsel relying on the judicial pronouncement by the Hon'ble Supreme Court in the case of *V.H Patel & Co.*[15], contended that the power of an arbitrator to decide a dispute depends on the arbitration clause in an agreement. Based on the above submissions, they argued that the arbitrability of a dispute cannot be ousted in the presence of an arbitration clause.

---

12 *Management Committee of Montfort Senior Secondary School* v. *Shri Vijay Kumar and Ors.*, AIR 2005 SC 3549.

13 *Steel Authority of India Ltd.* v. *SKS Ispat & Power Ltd. & Ors.*, www.indiankanoon.com, https://indiankanoon.org/doc/187619824/, last seen on 31/07/2016. Citation not provided

14 Supra 1.

15 *M/s. V.H. Patel and Company and Ors.* v. *Hirubhai Himabhai Patel and Ors.*, (2000) 4 SCC 368.

7. JUDGEMENT

The petition was dismissed by the Court. Based on the below mentioned reasoning the Court rejected the contentions by the plaintiff and upheld the arbitrability of the dispute.

7.1. Section 62 of Copyright Act does not oust the jurisdiction of Arbitral Panel:

The Court after analysing section 62 which corresponds with section 134 of Trademarks Act[16], rendered that the interpretation of the text does not propose ousting the jurisdiction of an Arbitration panel on disputes of infringement or passing off. The bench observed that even though Intellectual Property rights are special rights conferred by statutes, but they are a species of property and there is no material distinction between the proprietor of a mark and the owner of a land. These provisions do not propose to infer any exclusivity of a court on finding of a copyright infringement, which is a fact finding and an arbitration panel is capable of the same.

7.2. Suit is not an action In Rem:

The Court while adjudicating the second issue, held that the action in a copyright infringement and the remedy sought are *in personam*, the reason being that a proprietor holder of a copyright and an owner of a trademark have a right against the world at large, a claim for copyright infringement is against an individual and only binds that particular party. The Court held that the suit is *in personam* as the remedy sought is against a particular party.

7.3. Dispute in question is purely Contractual:

Once it was settled that the suit filed is an action *in personam*, the Court went on further to ascertain the arbitrability of the dispute. The Court accepted the defendant's contention that the dispute arises out of the Term Sheet and is of a contractual nature, an arbitrator has the same powers as a civil court has and the relief sought by the plaintiff is of damages and injunction which can be well granted by an arbitrator. Further, the Court discussed the decision laid down in *V.H Patel &*

[16] Section 134 of the Trade Marks Act, 1999.

Co.[17], wherein the arbitrator issued an injunction restraining others for the use of trademarks, the award was never challenged on account of non-arbitrability of a trademark dispute and the Supreme Court upheld the arbitration as competent. The Court relied on the principle laid by the Hon'ble Supreme Court in the case of *Booz Allen*[18], held that when there is a contract between the parties to refer disputes arising out of the same, to a private forum there is no question of the disputes being non-arbitrable.

8. CRITICAL ANALYSIS OF THE JUDGEMENT

Justice Patel delivered the judgement that the matter at hand concerning copyright disputes. The rationale behind the judgement in this case was based on the nature of remedy sought. The reasoning behind the judgement can be divided into three parts. First part would consist of the upholding of that any remedies available on the part of claimant can't be taken away by an arbitral tribunal in case of copyright disputes. Second part would be the reasoning that the right between two claimants for actions regarding passing off or infringement of copyright or trademark will always be action *in personam* and the remedy sought will also be *in personam* and not in rem. Third extraordinary rational upheld was that holding otherwise would create different other repercussions in terms of commercial transactions.

It is respectfully submitted that the judgement given has few flaws. The distinction made was on the basis of nature of the rights. The difference between right *in rem* and right *in personam* was the basis of the verdict. The explanation given by Salmon is the jurisprudential reference which can be made to understand the incoherency in present situation. The classic text on jurisprudence by Salmond explains the origin of right *in rem* and right *in personam* has been a derivation from action *in rem* and action *in personam*. Action *in rem* was to be understood as the restoration or recovery claim made by a plaintiff. It can also be called restoration of status. Action *in personam* refers to a claim for enforcement of a certain obligations against the defendant. Action *in personam* generally included payment of money, specific performance of a contract etc.

---

[17] Supra *note* 6.

[18] Supra *note* 1.

8.1. Jurisprudential Analysis:

Salmond made further distinction in terms of the scope of enforceability. He states that a right *in rem* can be enforced against the world whereas right *in personam* can be enforced only against a specific person. In other words, a right *in rem* endures a liability on the world at large and a right *in personam* is protection of interest against on specific person. The influence of this distinction is very evident in all legal systems. If a conflicting situation occurs then law prefers right in rem. Protection against world at large prevails over against few specific persons. Drawing the analogy, Rights of an intellectual property holder can be considered to be more valuable. [19]

If a related remedy is unavailable, the entire concept of right *in rem* ceases to hold ground. It results in being meaningless. It is can't be said to be justified to confer a person with a right against world which can't be enforced. A person may have rights related to a property against the world at large and it is not correct to say that the enforceability can be restricted to only a few.

Rights have been categorized on many bases and one of them is it being right *in rem* or right *in personam*. Intellectual Property rights have been considered to be right in rem. The reason of the same is because such rights bind third parties. These are enforceable against world at large. Law confers certain exclusive rights to the intellectual property right holder. This right confers validity to an action which arises from violation of such rights by any person who does not have authority of law. Arguments have also been made that if intellectual property matters were governed by the concept of ownership then contractual performance containing infringement can also be resisted.[20]

It has also been argued that if an unauthorised interfering/infringing act can be resisted by virtue of the ownership status, then the performance of a contract which constitutes or contains such an infringing act, can presumably also be resisted on the same basis.

The Hon'ble court overlooked the authorities which were present to prove that intellectual property rights are right in rem. No reference has

---

[19] Fitzgerald, *Salmond on Jurisprudence*, 12th ed.., 235, Universal Law Publishing, Delhi

[20] A. Rahmatian, 'Contracts infringing intellectual property rights', Intellectual Property Quarterly, Vol. 444, 4, 2003.

been made to the existing Madras High Court precedent *Super Audio Madras P. Ltd. v. Entertainment Network India (P) Ltd.*[21] where sound reasoning was given that copyright related rights are right *in rem* and not *in personam*.

8.2. A Comparative Analysis – Approach by Different Countries:

Arbitration in intellectual property rights is not an alien concept on international level. It can be said to be a by-product of convenience that intellectual property related disputes are considered to be arbitrable in most part of the world.

If we take example of United States of America, there is a law backing the issue of arbitrability of intellectual property law. Though this law codified under 35U.S.C. § 294 only covers patent disputes. For copyright related disputes, reliance can be placed on few case laws decided by various courts. Most prominent reference would be made to the *Kamakazi Music Corp. v. Robbins Music Corp.*[22], where it was held that copyright disputes can be considered to be arbitrable. Exception was made in this case only with regards to the disputes where validity of copyright was not part of the issue in question. There are other verdicts to uphold the same.[23] In recent trends courts have gone to the extent of allowing arbitration in copyright matters despite the validity being an issue if matter gets its extension from a licence suit. Remedies were also given consideration on a few occasions.

Supreme Court of Canada has upheld the view that copyright issues are arbitrable in nature only if the orders do not create liability on any third party.[24] Similar position has been upheld by English courts.[25] If we refer to legal situation of arbitrability in Switzerland in case of Intellectual Property related disputes, the general notion is in favour of arbitrability of issues especially related to copyright.

---

21 *Super Audio Madras P. Ltd.* v. *Entertainment Network India (P) Ltd.*, (2011) 1 LW 611 (Mad).

22 *Kamakazi Music Corp.* v. *Robbins Music Corp.*, 684 F.2d 228 (1982, 2nd Circuit).

23 *Saturday Evening Post Co.* v. *Rumbleseat Press, Inc.,* 816 F.2d 1191, 1198-99 (1987, 7th Cir.).

24 *Desputeaux* v. *Éditions Chouette,* [1987] Inc. 2003 SCC 17.

25 MUSTILL & BOYD (2001).

Arbitrability issue of Intellectual Property rights has never been adjudicated by Singapore court. The expansion of ambit of intellectual property rights to the arbitration would require examination of governing laws regarding. However, given the expansion of international trade and commerce Singapore is most likely to follow the approach of the United States.

9. CONCLUSION – THE INDIAN SCENARIO

Based on the interpretation given by the Supreme Court and Bombay High Court it can be inferred that there are two tests to decide matter of arbitrability of any issue. The test given by the Bombay High Court has been already critically examined. Examining the alternative Booz Allen test it is respectfully submitted that it has a disadvantage on technical levels. A party can pray for a relief which is outside the power of the arbitrator. The Bombay High court has expressed its concern regarding malafide intentions of the parties if such a generic test was applied.[26] Moreover, the emphasis to prove the malafide intension becomes very heavy to carry for one party. In addition, determination of enforcement of the clause governing arbitral process is a very difficult prospect. The factum of proving the prime arbitrability of the relief sought by one party falls on the other party which is unfair being against the basis of arbitration which is agreement.

Booz Allen approach has two main flaws in application. First is its generic nature which leaves many issues unaddressed. Another problem is when the relief sought is by nature arbitrable but if the nature of rights were relied upon, it becomes conflicting. Supreme Court itself has accepted that this test can't be applied as a rigid rule. However, both the test remains equally ambiguous in different contexts. This unbalanced set of approach leaves boundaries of arbitration uncertain.

[26] Supra *note* 7.