INTERNATIONAL JOURNAL OF LEGAL STUDIES AND SOCIAL SCIENCES [IJLSSS]

ISSN: 2584-1513 (Online)

Volume 3 | Issue 3 [2025] | Page 194 - 203

ARBITRABILITY OF TRADEMARK DISPUTES: AN ANALYTICAL STUDY OF THE JUDICIAL DECISIONS IN INDIA

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ABSTRACT

Arbitrability of matters pertaining to trademarks is a convoluted legal question based on the differentiation between real and personal rights. Arbitration, a quicker and a more convenient substitute for litigation, applies to disputes that are of private nature. In the context of trademarks, such disputes include matters of licensing, franchising and assignments. Disputes over trademark registration, ownership or validity that involve public interest as well as third-party rights are normally non-arbitrable. The Indian judiciary has used a right-based approach to ascertain the arbitrability of trademark disputes. Where the issue arises out of a contractual obligation between two parties, it is deemed arbitrable, while issues arising out of statutory rights and public enforcement machinery come under the jurisdiction of judicial courts. This differentiation maintains arbitration as a real option for the resolution of private commercial disputes while protecting the public interest involved in trademark protection. The developing jurisprudence demonstrates a balance between the doctrines of party autonomy in arbitration and the regulatory regime over intellectual property rights.

Keywords – Arbitrability, Trademark, Right, Judiciary, Contract, Infringement, Registration

1. INTRODUCTION

Arbitrability of trademark disputes is a highly debated issue. As the Alternative Dispute Resolution (ADR) mechanisms gain significance, a question arises that whether trademark disputes can be referred to arbitration. Issues involved in trademark disputes range from registration to breach of trademark licensing agreements. India has no specific law addressing on arbitrability of trademark disputes, not even the Arbitration and Conciliation Act 1996. Therefore, the judicial institutions define the parameters to deal with this issue. Courts have been inconsistent in ruling on the arbitrability of trademark disputes, approving it in some cases and denying it in others. The research work explores on the reasons behind the inconsistency and conditions under which

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arbitration is being held possible. This will help in understanding the difference between the trademarks disputes that can be referred to arbitration and those that cannot be.

1.2 STATEMENT OF PROBLEM

In the absence of any express legal provision that deals with arbitrability of trademark disputes, the decisions of the Indian judiciary illuminate in addressing on the circumstances under which a matter involving the use of a trademark could be referred to arbitration. Therefore, to examine the arbitrability of trademark disputes, an analysis of the judicial decisions is necessary.

1.3 RESEARCH OBJECTIVES

- To understand why the Courts allow arbitrability of trademark disputes in some cases and deny the same in other cases
- To understand the difference between arbitrable and non-arbitrable trademark disputes

1.4 RESEARCH QUESTIONS

- Whether the Courts deny or permit the arbitrability of trademark disputes?
- Whether the judicial decisions are driven by nature of the rights involved in the trademark disputes?

1.5 RESEARCH METHODOLOGY

The research is completely doctrinal in nature. Mostly primary resources were used to conclude the research because the research is centered on judicial decisions in India. The judgements pronounced by the Courts, dealing with the arbitrability of trademark disputes, are the primary sources. SCC Online and IndianKanoon were the research tools for gaining access to those judgements. Secondary sources have also been utilized. They include books and articles published by renowned journals. An analytical method was adopted to study the judicial decisions. The purpose was to understand the nature of the rights disputed before the Courts.

2. TRADEMARK DISPUTES ARE ARBITRABLE

The arbitrability of trademark disputes is a key legal issue in India, where IP rights are central to commerce. As arbitration serves as a mechanism faster than the procedure observed by the judicial Courts, it has been considered for resolving such disputes. The Supreme Court's ruling in *Booz-Allen & Hamilton Inc. vs. SBI Home Finance Ltd.*[2] established that rights *in rem*, that affect the public, cannot be arbitrated, while rights *in personam* can.

[2] AIR 2011 SUPREME COURT 2507

There is a number of cases where the Courts have allowed a trademark dispute to be settled through arbitration. *M/S Liberty Footwear Company vs M/S Liberty International*[3] is one such case. The defendant had an exclusive license agreement with the partnership firm of the plaintiff, but had no personal rights to use the trade name of the latter, that is, LIBERTY. However, the plaintiff contended that the defendant has unauthorizedly used LIBERTY for the products of his own company. So, when the plaintiff initiated an action for infringement, the defendant preferred arbitration under the Arbitration and Conciliation Act 1996, basing on an arbitration agreement in the partnership deed. The plaintiff argued otherwise and sought judicial determination. Relying on the *Booz Allen* case, the Delhi High Court observed how the rights *in rem* and rights *in personam* were different. It held that the main concern in the dispute was whether a partner in the plaintiff's firm could use the firm's trademark for his own sole proprietorship concern. This contemplates a right *in personam*. Thus, the Court ruled in favour of arbitrability of trademark disputes. The Delhi High Court again allowed arbitration of trademark disputes in *M/S Golden Tabie (P) Ltd. vs M/S Golden Tobacco Ltd.*[4]. The parties had entered into a Trademark License Agreement, whereby the plaintiff was given exclusive, non-assignable and non-transferrable rights to manufacture the defendant's products and distribute the same in the domestic and international market. The agreement was terminated in spite of the fact that the plaintiff had invested huge capital into the marketing of the products to increase their distribution[5]. The plaintiff, feeling aggrieved by the termination, filed a suit seeking the benefit of the agreement. The defendant sought arbitration of the matter. The Court stated that the matter could be arbitrated as it arose from a trademark license agreement and the issue was whether it was justified for the defendant to terminate the agreement and revoke the rights of assignment. The rights were purely of contractual nature and thus arbitrability of the dispute was affirmed.

In *Deepak Thorat S/O Dinkar Thorat vs Vidli Restaurant Ltd.*[6], the Bombay High Court referred a trademark dispute to arbitration. The petitioner, through a franchise agreement, used the respondent's mark VITHAL KAMATS ORIGINAL FAMILY RESTAURANT ACHHA HAI SACHHA. On termination of the agreement, the petitioner allegedly breached the negative covenant and incorporated the mark into his own mark, IDLI & KAMATS - FEEL THE SOUTHERN TOUCH. The respondent sought arbitration, but the petitioner contended that trademark rights were *in rem* and non-arbitrable. The Court, however, held that the dispute is

[3] 2023 SCC OnLine Del. 5125
[4] 2021 SCC OnLine Del. 3029
[5] Paramita Banerjee & Ishika Chattopadhyaya, *Arbitrability of Trademark Disputes: A Case Study of M/S Golden Tabie (P) Ltd. V. M/S Golden Tobacco Ltd.*, 1 (2022)
[6] 2017 SCC Online Bom. 7704

simply and barely on the footing of a franchise agreement, which contains a negative covenant, namely, whether or not the franchiser is entitled to enforce that negative covenant against the franchisee[7]. It did not concern the trademark's general legal status or ownership. Therefore, the dispute could be referred to arbitration as it involved a right *in personam*. Likewise, in *Hero Electric Vehicles Pvt. Ltd. vs Lectro E-Mobility Pvt. Ltd.*[8], the Court observed that the subject-matter of the dispute arose out of a Family Settlement Agreement and a Trademark and Name Agreement which gave the right to use a registered trademark. Thus, the dispute was held to be arbitrable.

3. TRADEMARK DISPUTES ARE NOT ARBITRABLE

The Courts have ruled against arbitration of trademarks disputes. In *Vidya Drolia vs Durga Trading Corp.*[9], Supreme Court, though has not dealt with a matter involving trademark dispute, has made an observation that the registration of trademarks are exclusive matters falling within the sovereign or government functions and have *erga omnes* effect. Thus, rights relating to trademarks are non-arbitrable. To provide a framework for upcoming cases pertaining to arbitrability of any dispute, the Court laid down certain questions to be considered before referring such dispute to arbitration. They are[10]-

1. Whether the rights disputed fall under the category of rights *in rem*?
2. Whether the decision on the dispute affects the rights of third parties?
3. Whether the matter exclusively falls within sovereign or government functions?

If the answer to atleast one of the above questions is 'yes', then the dispute is said to be non-arbitrable. In another case, *A. Ayyasamy vs A. Paramasivam*[11], the same Court explicitly mentioned certain categories of disputes that cannot be referred to arbitration. 'Trademark disputes' was one such category and the reason given was that determination of such disputes might affect the rights of the third parties. The Bombay High Court also ruled against arbitrability of trademark disputes in *SAIL vs SKS Ispat & Power Ltd.*[12]. In this case, an action for infringement and passing-off was brought against the defendant in relation to the use of the plaintiff's trademarks. The defendant sought arbitration of the matter. The Court said that the matters related to infringement and remedies incorporate rights *in rem*. They do not arise out of a contract. The reliefs against infringement and passing-off, by their very nature do not fall within the jurisdiction of the

[7] Deepak Thorat S/O Dinkar Thorat v. Vidli Restaurant Ltd, S.C. Gupte 3 (Bom. HC 2017)
[8] 2021 SCC OnLine Del 1058
[9] AIR ONLINE 2020 SC 929
[10] Vidya Drolia v. Durga Trading Corporation, Sanjiv Khanna, Paragraph 26 (Supreme Ct. India 2020)
[11] AIR 2016 SUPREME COURT 4675
[12] 2014 SCC Online Bom. 4875

Arbitrator[13]. Hence, the dispute was held to be determinable only by the judicial Courts and the jurisdiction of an arbitral tribunal is ousted. However, a contradictory opinion was given by the same Court in the case of *Eros International Media Ltd. v Telemax Links India (P)Ltd.*[14]. Though the dispute was mainly a copyright one, the Court's view seems to negate the principle laid down in the *SKS Ispat* case. The Court held that actions of infringement between two claimants of copyright are actions *in personam*. Registration gives a person the right against the whole world, but actions of infringement and passing off bind only the parties to the copyright or trademark dispute.

4. THE DIFFERENCE

After a study of the judicial decisions, it is found that every trademark dispute is not arbitrable. The Courts are split on the basis of the conflict between the nature of trademark rights and the contractual nature of arbitral disputes. Arbitration is applied in the case of disputes arising out of contracts between parties. Trademarks, though grant exclusive ownership, have an effect on consumers by helping them identify goods and services. According to Glynn Lunney, a trademark makes the marketplace function better because it allows consumers to identify products efficiently and accurately so that they can easily pick what is best suitable to their needs[15]. Misuse of trademarks can mislead consumers, rendering them a matter of public concern. Therefore, the Couts have different opinions regarding the feasibility of settling trademark disputes through arbitration.

4.1 RIGHTS IN REM AND RIGHTS IN PERSONAM

A right *in rem*, as defined by Salmond, refers to a right available against the world at large[16]. On the other hand, a right *in personam* is available only against specific persons with whom the right-holder has a legal relationship. Enforcing a right *in rem* affects the rights of third parties. Property rights typically fall under rights *in rem* and IP rights also belong to this category. Rights regarding registration of trademark are rights *in rem*. Any decision thereon may affect the public. On contrary, contractual rights are considered rights in personam. Thus, trademark disputes, that stem from a contract between specific parties should, in principle, be subject to arbitration. This very principle has guided the Courts to determine whether the trademark disputes are arbitrable or not.

Rights *in rem*, including ownership and trademark validity, are normally not arbitrated because they encompass public interest, statutory rights and judicial powers. Arbitration is based on "Party

[13] SAIL v. SKS Ispat & Power Ltd, S.C. Gupte, Paragraph 4 (Bom. HC 2010)
[14] 2016 SCC OnLine Bom 2179: (2016)6 Arb LR 121
[15] Glynn S Lunney, *Trademark Monopolies*, 48 Emory Law Journal 432 (2019)
[16] V.D Mahajan, *Jurisprudence and Legal Theory* 274 (5th ed. 2014)

Autonomy"[17], as inferred from the "Arbitration and Conciliation Act 1996"[18]. But rights *in rem*, under the trademark law, are non-contractual and influence market competition and consumer protection. Trademark registration gives exclusive enforceable rights subject to judicial determination. Hence, matters relating to public rights or statutory enforcement must be determined by Courts only[19].

4.2 NON-ARBITRABLE TRADEMARK DISPUTES

Many Courts have denied the notion of trademark arbitration in cases such as *Vijay Drolia* and *SAIL*. In these cases, the Courts consider the trademark as a property right, thus coming under the category of rights *in rem*. If a person owns a trademark, he can prevent anyone from its unauthorized use.

In *Vidya Drolia*, *Ayyasamy* and *SAIL*, the trademark disputes were generally excluded from the scope of arbitration on the ground that they concern rights *in rem*. Also, the matters exclusively falling under the sovereign functions are non-arbitrable. When a suit for infringement of a registered trademark is filed, the defendant contends the validity of the plaintiff's trademark and therefore its validity is assessed. This scenario is observed in a plethora of trademark litigations. One such case is the *Oreal Co.* case[20]. If a trademark is already registered, its validity has thus been affirmed by the concerned authorities. Registered trademark means the proprietor has a statutory right that can be enforced against the world at large. The rights are not granted by a contract, but by the State. Thus, matters involving infringement of registered trademarks cannot be arbitrated because it is a matter of sovereign functions. In such cases, the trademark disputes are to be resolved by Courts only. Therefore, when a trademark dispute pertains to registration, ownership, infringement and validity, it loses the feature of arbitrability.

4.3 ARBITRABLE TRADEMARK DISPUTES

All the judicial decisions permitting arbitrability of trademark disputes have one thing in common. The subject-matter of the disputes is centered on a contractual agreement between two parties. A contractual agreement gives rise to a right *in personam*. Therefore, licensing agreements, franchise agreements and assignments are all contracts and therefore the decisions given in *Vidli Restaurant*, *Golden Tabie*, *Hero Electric Pvt. Ltd.* and *Liberty Footwear*, upheld the disputes to be referred to arbitration. In *Liberty Footwear*, it was noted that the matter was not on the "grant, issuance or

[17] Rajkumar S Adukia, *A Practical Guide on the Concept and Practice of Arbitration* 8 (1st ed. 2016)
[18] The Arbitration and Conciliation Act § 7 (1996)
[19] Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc., 473 U.S. 614 (1985)
[20] M/S Pornsricharoenpun Co. Ltd. & Anr. v. M/S L'Oreal India Pvt. Ltd. & Anr., Neutral Citation No. 2022/DHC/004808 (Del. HC 2022)

registration of a trademark". Rather, it was on enforcing a right, not against a third party, but against someone asserting the right to use the trademark under or through the registered proprietor. Thus, the conflict was in regard to a secondary right *in personam*.[21]. The dispute was accordingly referred to arbitration.

4.4 THE DIFFERENCE

The Courts use a Right-Based test to determine whether the trademark dispute in question is arbitrable or not[22]. This test took birth in the *Booz Allen* case and therefore the case became a guiding light for the Courts to decide on the arbitrability of trademark disputes. Under this test, rights against the public are non-arbitrable, while those against individuals are arbitrable. The nature of the trademark rights involved in the dispute are determined by application of this test and. It has been repeatedly clarified by the Courts that trademark disputes that are not registration-related do not have to be raised before the Registrar or the IP Division of the High Court. If the dispute is based on contractual rights under a trademark agreement, arbitration can be availed as an option for resolution of the dispute[23]. In an arbitrable trademark case, the right will never arise under the Trademarks Act 1999, but under a contractual agreements relating to a trademark. Therefore, the difference between arbitrable and non-arbitrable trademark disputes lies in the difference between the nature of rights involved in those disputes.

5. CONCLUSION

The arbitrability of trademark disputes in India is a complex, dynamic concept that is highly influenced by judicial interpretations. After an extensive analysis of how the Indian judiciary has approached deciding whether trademark disputes can be settled through arbitration, it is found that the central differentiation is in the nature of the dispute whether in respect of rights *in rem*, which have the public in general and are non-arbitrable, or rights *in* personam, which stem from contracts and can be resolved through arbitration.

Court decisions have shown that where trademark conflicts arise out of contracts like licensing, franchising or assignment, they can be arbitrable. *Liberty Footwear*, *Golden Tabie* and *Hero Electric* are examples where disputes regarding contractual obligations and private rights were submitted to arbitration. These disputes cover enforcement of specific contractual provisions as opposed to determining trademark ownership or validity. On the other hand, trademark registration, ownership validity or infringement disputes affecting third-party rights have been held to be non-

[21] M/S Liberty Footwear Company v. M/S Liberty International, 22 (Del. HC 2023)
[22] Risabh Joshi, *Legal Landscape of Arbitrability of IP Disputes in India: Future Directions for Current Conflicts*, Dharmashastra National Law University Student Law Journal (2024)
[23] Vijay Kumar Munjal v. Pawan Kumar Munjal, 278 Vibhu Bakhru, J (Del. HC 2022)

arbitrable. The Supreme Court judgments in *Vidya Drolia* and *A. Ayyasamy* settled that rights *in rem*, especially those concerning statutory protection under trademark law, have to be determined by judicial Courts. In the *SAIL* case also infringement and passing-off of trademarks were held to involve public interest and cannot be made subject to arbitration.

Indian courts have made a sophisticated call regarding the arbitrability of trademark disputes. The test to be employed continues to be the nature of the rights involved. If a conflict is related to private contractual rights, arbitration is permitted. Where public interest, third-party rights or statutory interests are involved, Courts are the only determining bodies. This judicial approach maintains a balance between the concept of arbitration and the statutory provisions for trademark rights. A confusion arises in matters of infringement of trademarks mainly due to the conflicting rulings given by the Bombay High Court in two cases before it. In one case, it held that infringements actions incorporate rights *in rem* and in the other case, they are *in personam*. Therefore, an interpretation can be drawn that if in the infringement action, the issue is whether the defendant has infringed the plaintiff's trademark or not, then the matter can be referred to arbitration as it involves determination of a right *in personam*. This view aligns with what the Court said in the *Eros-Telemax* case. But if in an infringement suit, the defendant contends the validity of the trademark, then such defendant is questioning a sovereign action. Then as per the *Vidya Drolia* ruling, the matter is not arbitrable.

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