



IP BULLETIN

Vol. IV Issue 2, JULY-DEC., 2023, Pg. 82-87



ARBITRABILITY OF TRADEMARK DISPUTES: A DETAILED ANALYSIS OF GOLDEN TOBIE (P) LTD. VS. GOLDEN TOBACCO LTD.

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ABSTRACT

In the modern era of business and innovation, intellectual property is a necessary component. It safeguards originality and creativity, enabling the owner to use these qualities to further their own success and inspiring others to support creativity and innovation. One of the areas that intertwine with IP laws is Arbitration. The possibility of arbitration in cases of trademark agreements, is covered in this article. The primary objective of the study is to ascertain if and under what circumstances trademark disputes are arbitrable in India. The theory indicates that, with certain exclusions, trademark disputes may be arbitrated in India notwithstanding legal restrictions. The law technically says that the issuance and registration of patents and trademarks are solely governmental functions, which raises the question of whether trademarks can be arbitrated or not. In the case at hand, the Delhi High Court had to deal with the question about whether a trademark license agreement dispute may be arbitrated. In cases where the disagreement resulted from a contract, the aforementioned matter can serve in examining the arbitrability of IPR matters. This decision sought to resolve any ambiguity that had developed regarding the arbitrability of any disputes involving intellectual property rights. This paper studies this less researched area of law in the highlight of the case Golden Tobie (P) Ltd. Vs. Golden Tobacco Ltd.

Keywords: IPR, Trademarks, Arbitrability, License Agreement, Contracts

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INTRODUCTION

The Copyright Act, 1957 under section 62, states that a breach matter cannot be brought before any court lower than the jurisdictionally competent court of that particular district or as mentioned in the agreement, caused confusion because the common interpretation was that IPR-related matters could not be arbitrated. As a result, the arbitrability of IPR has always been a source of concern in India as there is a lot of ambiguity present in the procedure. The various stances and decisions made by various courts in India can be used to analyse the entire arbitral conundrum in IPR problems. The Hon'ble Supreme Court stated in *Booz Allen & Hamilton Inc. vs. SBI Home Finance Ltd.*, that disputes that fall under the category of right in rem are non-arbitrable, but that disputes that fall under the category of right in personam are.² Further, in its ruling in *A. Ayyasamy v. A. Paramasivam and Ors.*, the Hon'ble Supreme Court referenced OP Malhotra's book "The Law & Practice of Arbitration and Conciliation" and declared that patent, copyright, and trademark issues are not subject to arbitration.³ In the case of *Eros International Media Ltd. v. Telemex*, the Bombay High Court, however, reached an alternate outcome while deciding the issue of the arbitrability of trademarks. The bench ruled that Section 62 did not forbid arbitration because IPR disputes are inherently private and because IP rights are a sort of property right that cannot be distinguished as a separate body of law in light of the court's interpretation of the section.⁴ The court made the crucial observation that an arbitrator could take any action that a civil court could take. As a result, IPR disputes would be resolved through arbitration.

FACTS

GOLDEN TOBIE (P) LTD. V. GOLDEN TOBACCO LTD. Citation: [2021 SCC ONLINE DEL 3029]

The Defendant initially supplied the Plaintiff with its unique brands of "Golden's Gold Flake, Golden Classic, Taj Chhap, Panama, and Chancellor" under the terms of a Master Long Term Supply Agreement that the Plaintiff first entered into on 16/8/2019. They only procured, handed out, and sold these products in domestic and international markets. A trademark license agreement was then signed by the Plaintiff and Defendant on December 2, 2020. Under the terms of this agreement, the Plaintiff was given the sole right to produce the Defendant's goods at the Plaintiff's

² *Booz Allen and Hamilton Inc v. SBI Home Finance Ltd. & Others*, (2011) 5 SCC 532

³ *A. Ayyasamy v. A. Paramasivam and Others*, (2016) 10 SCC 386.

⁴ *Eros International Media Ltd v. Telemex Links India Pvt. Ltd.*, 2016 SCC Online Bom 2179

Noida plant, sell them, and transport them as needed. This license was confidential, assignable, and non-transferable.

Plaintiff established that despite significant capital and operational investments, including those made by Plaintiff for marketing and advertising initiatives aimed at expanding the Defendant's product's reach, on August 14, 2020, Defendant arbitrarily decided to terminate the license agreement, disregarding the ongoing pandemic.

Plaintiff added that on August 29, 2020, a second amended agreement was signed between the parties after the termination communication was withdrawn. After then, on February 13, 2021, the Defendant gave the Plaintiff another notice of termination for failing to make the required payments on time, in accordance with the contract. With immediate effect, the defendant cancelled the original agreement from February 12, 2020 and the modification agreement from August 29, 2020. As a result, the plaintiff was no longer permitted to produce and market the defendant's exclusive brands under the registered trademark. Consequently, the current lawsuit was started.⁵

ISSUE

Whether the assignment of Trademark in the present case is arbitrable or not?

CONTENTIONS

Plaintiff

According to the plaintiff, the agreement dated 12/02/2020 could not be terminated solely due to the royalty installment was late because the defendant had handed over the trademarks in question to the plaintiff for entire tenure. Plaintiff further emphasized that the data was submitted to SEBI and Trademark Registry in accordance with the contract. Additionally, it is asserted that since the Plaintiff established the disputed plant in accordance with the Agreement, the Agreement cannot be dissolved.

Coming to the main issue of the case, Plaintiff asserted that closure of the issuance of trademark by the defendant raises the question of trademark registration, which is a matter of Honourable Court, and urged the court to reject the defendant's request of reference of the dispute to arbitration in accordance with Section 8 of the Arbitration and Conciliation Act, 1996.

⁵ *Golden Tobie (P) Ltd. V. Golden Tobacco Ltd. (2021) SCC ONLINE DEL 3029*

Defendant

The defendants' position is that the trademark license agreement, dated 12/02/2020, and amendment agreement, dated 29/08/2020, that the claimant is aiming to impose, are stipulated and subject to a lawful termination under article 8 of the legally binding agreement, dated 12/02/2020, and clause 5 of the amended agreement, dated 29/08/2020, and that termination of such agreement via a legal notice, dated 13/02/2021, was therefore completely valid and legal. Defendant highlighted clause 12 of the parties' Trademark License Agreement and asked that the case should be referred to a single Arbitrator, selected in accordance with such clause and asserted that the trademark license agreement's trademark transfer was actually an action in personam.

DECISION

The court held the opinion that, in the process of determining whether the dispute could be arbitrated, it was exercising the same jurisdiction as the Arbitral Tribunal under Section 8 of the Arbitration and Conciliation Act, 1996. As such, the Honourable Court had to make sure that its jurisdiction under Sections 8 and 11 would not be used in a way that would make the Arbitral Tribunal less able to rule on the matter. The court upheld the view that, Trademark licensing enables the owner of the mark to give another party specific rights to use the mark, with or without limitations and conditions. This licensing is crucial for expanding the proprietorship's enterprise market reach and aids in the technology transmission process. A proprietor can only grant licenses for registered trademarks. under the Indian Trade Marks Act. The licensing of an unregistered trademark is not expressly prohibited, however, and is therefore seen as being legal under common law. The "permitted use" of the trademarks is outlined in Sections 48 to 56 of the Trademarks Act, 1999. A formal agreement stating the registered proprietor's consent is required in order to use a trademark authorized by a party other than the registered owner, as specified under Section 2(1)(r) of the Trademarks Act, 1999. As a result, the core of a trademark licensing arrangement is the sharing of a brand's use without renouncing ownership, often for better company exposure and reach, then a cost that is paid by the third party that utilizes the property that has been allocated for profitability and commercial benefits.

A trademark license agreement's arbitration clause mandates that the parties submit their dispute to arbitration. If such a provision is provided., the Honourable Court will advise the parties to apply arbitration to resolve their disputes rather than going to court, unless a party or

a lone arbitrator or arbitration tribunal has not been constituted in accordance with Section 11 of the Act is requesting an interim remedy as per Section 9 of the Act.

Further, the court determined based on the facts of this case that a sale or mortgage agreement creates rights in personam and that the associated duties belong to the parties. On the other hand, these contracts result in the transfer of a real property right. It was decided by the court that issues involving rights in rem must be resolved by courts and tribunals, but they may also be brought to arbitration. The court highlighted a crucial distinction when it said that arbitration would be available for conflicts concerning subordinate rights in personam that emerged from rights in rem.

Thus, the conflict that results from the parties' agreement was determined to be arbitrable. The Honourable Court further stated that as trademark was already awarded and registered. Furthermore, it was determined that a contract, not statutory fiat, is required for the transfer of a trademark. No governmental authorities are used in this process.

Thus, in accordance with the Arbitration Agreement, the court referred the parties to arbitration.

CONCLUSION AND WAY FORWARD

The situation regarding the arbitrability of IPR disputes is still unclear. According to numerous judgments, if a trademark dispute between the parties relates to a contract or other agreement amidst them, then that conflict may be submitted to arbitration if it falls under the terms of the arbitration agreement and hasn't already been completely dismissed. The courts have consistently held that IPR violations that result from a contract between the parties give rise to an action in personam. Such rights may be asserted in opposition to a specific party.

The ruling in Hero Electric Vehicles Pvt. Ltd. v. Lectro E-Mobility Pvt. Ltd., stated that "when a dispute arises as a result of an infraction of the trademark agreement between the parties, it cannot be alleged to be an infringement of the provisions of the Trademark Act, and thus the rights arising from the disputes cannot be claimed to be protected by the Trademark Act,"⁶ was apparently reinforced by the current case. Consequently, trademark registration is a governmental function; nonetheless, licensing or assigning is carried out via the contract's instrument, and the parties to the contract are the only ones with rights and obligations arising from it. No other parties are granted any rights. "If one of the parties to the dispute wishes to refer the dispute to the Arbitral Tribunal, the arbitration agreement cannot be ignored and an

⁶ Hero Electric Vehicles Pvt. Ltd. v. Lectro E-Mobility Private Ltd, 2021 SCC OnLine Del 1058
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opportunity for the same must be provided. The court should not absorb the dispute as that would amount to usurping the powers of the Arbitral Tribunal." This is because the parties have an arbitration agreement and the cause of action comes from a breach of a contract provision between the parties. In addition to further extending the holding in *Vidya Drolia and Ors. v. Durga Trading Corporation*, this case clarifies when a dispute ceases to be amenable to arbitration and ensures that the "broad scope of the *Vidya Drolia* judgement cannot be misconstrued or misinterpreted to bypass.⁷ Thus it can be said that there needs to be an official notification or a legislature that clarifies the current situation.

Given an increase in IPR-related transactions, it is critical to remember that IP disputes do not always result from infringement of IP laws. Since such disagreements may also be about contracts, arbitration is one option.

⁷ *Vidya Drolia & Others v. Durga Trading Corporation*, 2019 SCCOnLine SC 358.