* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

Reserved on:31.10.2022
Date of decision: 10.01.2023

\+ **CS(COMM) 715/2019**

M/S LIBERTY FOOTWEAR COMPANY ..... Plaintiff
Through: Mr.Rajshekhar Rao, Sr. Adv. with Mr.Kapil Wadhwa, Ms.Surya Rajappan, Ms.Tejasvini Puri, Advs.

versus

M/S LIBERTY INTERNATIONAL ..... Defendant
Through: Mr.Vijay Pal Dalmia, Mr.Rajat Jain, Mr.Aditya Dhar and Ms.Neelam Dalmia, Advs.

CORAM:
HON'BLE MR. JUSTICE NAVIN CHAWLA

I.A.474/2020

1. This application has been filed by the defendant under Section 8 of the Arbitration and Conciliation Act, 1996 (hereinafter referred to as the 'Arbitration Act') praying that the parties to the suit be referred to arbitration. It is the case of the defendant/applicant that there is an Arbitration Agreement in the Partnership Deed dated 08.09.2003 between the parties and the disputes raised by the plaintiff fall within the scope of the said Arbitration Agreement.

CASE OF THE PLAINTIFF

2. The plaintiff has filed the present suit, *inter alia*, for the following reliefs:-

"A. A decree of permanent injunction restraining the Defendant, its business associates, partners, directors, principal officers, family members, servants, agents, dealers, distributors, franchisees and anyone acting for and on their behalf from selling, offer to sell, manufacturing, advertising, promoting or in any other manner using the impugned trade name LIBERTY INTERNATIONAL, Plaintiff's registered trade mark LIBERTY and the corporate logo 

and/or any other mark identical/deceptively similar to Plaintiff's well-known trademark LIBERTY, LIBERTY variant marks with respect to goods falling within Class 25 and any other cognate and allied goods in any manner, so as to result in infringement of Plaintiff's registered trademark LIBERTY.

B. A decree of permanent injunction restraining the Defendant, its business associates, partners, directors, principal officers, family members, servants, agents, dealers, distributors, franchisees and anyone acting for and on their behalf from selling, offer to sell, manufacturing, advertising, promoting or in any other manner using the impugned trade name LIBERTY INTERNATIONAL, Plaintiff's registered trade mark LIBERTY and the corporate logo 

and/or any other mark identical/deceptively similar to Plaintiff's well-known trademark LIBERTY, LIBERTY variant marks with respect to goods falling within Class 25 and any other cognate and allied goods in any manner, so as to result in passing off or any act of Unfair Competition including resulting in confusion of any manner whatsoever.
C. For an order of delivery up of all the material bearing the impugned trademark, impugned trade name, impugned logos on packaging, labels, name, cartons, packaging material, name plates, publicity material like pamphlets, fliers,

> *hoardings, sign boards, stationery, digital material, website, internet, social media etc. for the purpose of destruction/erasure.*
>
> *D. For an order directing the Defendant to render the accounts to ascertain the quantum of unjust profits gained by Defendant;*
>
> *E. For an order of damages to the Plaintiff to the tune of Rs.2,00,00,400/- damage caused to the Plaintiff's brand equity, goodwill and reputation may be passed in favour of the Plaintiff and against the Defendant. If this Hon'ble Court directs a rendition of accounts, the Plaintiff undertakes to pay further court fees once the sum is ascertained on the Defendant's rendering true and proper accounts.;"*

3. It is the case of the plaintiff that the plaintiff is a partnership firm and is the proprietor of the registered trade mark '**LIBERTY'**, amongst several other trade marks. Mr. Dheeraj Gupta, the Sole Proprietor of the defendant, is a partner of the plaintiff firm, however, he does not have any personal rights in the plaintiff's registered trade mark '**LIBERTY'** in any manner whatsoever.

4. It is further claimed that Mr. Dheeraj Gupta is the youngest son of Mr. Harish Kumar Gupta, also a partner of the plaintiff firm.

5. It is alleged that the plaintiff has granted an exclusive license vide an Exclusive License Agreement dated 31.03.2003 in favour of *'M/s Liberty Shoes Limited'* for the use of the mark **'LIBERTY'** and its many variants. Mr. Dheeraj Gupta is also a shareholder in the said company/ exclusive licensee.

6. It is further alleged that Mr. Dheeraj Gupta is a family member of Mr. Adarsh Gupta, the Managing Partner of the plaintiff's firm, on whose authorization the present plaint has been filed. It is claimed that the parties tried to amicably settle the issues between them, however, the same has failed.

7. It is alleged that the defendant is unauthorizedly using the plaintiff's trade mark **'LIBERTY'** in the following manner:

> *" a. Incorporated LIBERTY in its trade name "LIBERTY INTERNATIONAL" (hereinafter referred as "impugned trade name") for competing business of footwear.*
> *b. Manufacturing, trading, importing and marketing identical*
> *products i.e. footwear using Plaintiff's registered*
>
> *trademarks LIBERTY and*
> *c. Affixing the Plaintiff's registered trademarks*
>
> *LIBERTY and on its products and packaging.*
> *d. Using the Plaintiffs registered trademark LIBERTY individually on identical products i.e. shoes/footwear.*
> *e. Operating infringing email id libertyshoes@live.com."*

8. For the purposes of the present application, I may not go further into the case set up by the plaintiff.

CASE OF THE DEFENDANT/APPLICANT

9. As noted hereinabove, the defendant has filed the present application praying that as the dispute raised by the plaintiff is one *inter se* amongst the partners of the firms and arising out of the Partnership

Deed dated 08.09.2003, the parties should be referred to arbitration in terms of Clause 14 of the Partnership Deed.

SUBMISSIONS OF THE PLAINTIFF

10. The learned senior counsel for the plaintiff asserts that as the present Suit claims relief under the Trade Marks Act, 1999 (hereinafter referred to as 'the Trade Marks Act'), the same cannot be referred to arbitration. In support he places reliance on the following judgments: -

a) ***Steel Authority of India Ltd. v. SKS Ispat and Power Ltd. and Ors.***, 2014 SCC OnLine Bom 4875;

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

c) ***Indian Performing Right Society Ltd. v. Entertainment Network (India) Ltd.***, 2016 SCC OnLine Bom 5893;

d) ***Eros International Media Limited v. Telemax Links India Pvt. Ltd. and Others.***, 2016 SCC OnLine Bom 2179

11. The learned counsel for the plaintiff submits that under Section 134 of the Trade Marks Act, a suit for infringement cannot be instituted before a Court inferior to a District Court, therefore, by implication, a relief for infringement of a trade mark cannot be adjudicated upon by an Arbitrator.

12. Placing reliance on various provisions of the Partnership Act, 1932 (hereinafter referred to as the 'Partnership Act'), he submits that the plaintiff has distinct rights under the Trade Marks Act and the Partnership

Act. Where the plaintiff makes claims under the Trade Marks Act, the Arbitration Agreement shall have no application; whereas, if the plaintiff chooses to exercise the rights under the Partnership Act, arbitration would be the remedy.

SUBMISSIONS OF THE DEFENDANT

13. On the other hand, the learned counsel for the defendant submits that in the present case, there is no dispute that the plaintiff is the proprietor of the trade marks. In fact, the defendant has, of its own accord, stopped using the logo ‘ ’ of the plaintiff, which is one of the claims made in the suit. He submits that, therefore, the only dispute left between the parties is as to whether the partnership can be represented by Mr. Adarsh Gupta, and whether the defendant, who is one of the partners of the plaintiff firm, can use the marks of the plaintiff firm.

14. He submits that, therefore, there is no dispute *in rem* to be adjudicated and arbitration would be the proper remedy. In support he places reliance on the following judgments:-

a) ***Hero Electric Vehicles Private Limited and Anr. v. Lectro E-Mobility Private Limited and Anr.***, 2021 SCC OnLine Del 1058;

b) ***Chem Academy Pvt. Ltd. v. Praveen Malik***, 2022 SCC OnLine Del 2414;

c) ***Hindustan Petroleum Corpn. Ltd. v. Pinkcity Midway Petroleums,*** (2003) 6 SCC 503,;

d) ***Golden Tobie Private Limited v. Golden Tobacco Limited***, 2021 SCC OnLine Del 3029;

e) ***Vimi Verma v. Sanjay Verma and Ors.***, 2013 SCC OnLine Del 4194; and

f) ***Lifestyle Equities CV v. Q.D. Seatoman Design Pvt. Ltd. and Ors.***, 2019 SCC OnLine Mad 38921;

15. The learned counsel for the defendant further submits that in view of Section 8 of the Arbitration Act, this Court cannot enter into the merits of the disputes raised between the parties, even for the purposes of consideration of a prayer for grant of an interim injunction. In case, the present application is to be allowed, the parties have to be relegated to arbitration without expressing any opinion on the merits of the claims raised by the parties. In support he places reliance on the following judgments:-

a) ***Learonal and Another v. R.B. Business Promotions Private Limited and Another***, (2010) 15 SCC 733;

b) ***Jagdish Raj & Brothers v. Jagdish Raj and Ors.***, 2002 SCC OnLine P&H 852;

c) ***Sundaram Finance Limited and Ors. v. T. Thankam***, (2015) 14 SCC 444;

ANALYSIS AND FINDINGS

16. I have considered the submissions made by the learned counsels for the parties.

17. From the reading of the plaint itself, it is evident that the plaintiff has filed the Suit through one of the partners in the plaintiff firm. The defendant is the sole proprietorship concern of one of the other partners in the plaintiff firm. The defendant also does not deny the proprietary rights of the plaintiff in the mark **'LIBERTY'**, including its variants and the logo. The dispute to be determined in the Suit, therefore, is whether the proprietor of the defendant, who is also a partner in the plaintiff firm, is entitled to use the marks of the plaintiff firm.

18. Clause 14 of the Partnership Deed dated 08.09.2003 contains the Arbitration Agreement between the partners of the plaintiff firm, and is reproduced hereinunder:-

> *"14. **ARBITRATION***
> *That in case of any dispute between the parties with regard to the interpretation of this deed or any other matter relating to the affairs of the firm, the same shall be referred to an arbitrator mutually agreed upon between the parties in accordance with the provisions of the Indian Arbitration Act."*
>
> (Emphasis Supplied)

19. In ***Vidya Drolia and Others vs. Durga Trading Corporation***, (2021) 2 SCC 1, the Supreme Court (Justice Sanjiv Khanna speaking for the Bench) answered the following questions:-

> *"**2.** A deeper consideration of the order of reference reveals that the issues required to be answered relate to two aspects that are distinct and yet interconnected, namely:*
> ***2.1** (i) meaning of non-arbitrability and when the subject-matter of the dispute is not capable of being resolved through arbitration.*
> ***2.2.** (ii) the conundrum – "who decides" – whether the court at the reference stage or the Arbitral Tribunal in the arbitration proceedings would decide the question of non-arbitrability.*
> ***2.3** The second aspect also relates to the scope and ambit of jurisdiction of the court at the referral stage when an objection of non-arbitrability is raised to an application under Section 8 or 11 of the Arbitration and Conciliation Act, 1996 (for short, the "Arbitration Act").*"

20. In answering the above issues, the Supreme Court held as under:-

> ***"46.** Having examined and analysed the judgments, we would coalesce and crystalise the legal principles for determining non-arbitrability. We begin by drawing principles that draw distinction between adjudication of actions in rem and adjudication of actions in personam.*
>
> ***47.** A judgment is a formal expression of conclusive adjudication of the rights and liabilities of the parties. The judgment may operate in two ways, in rem or in personam. Section 41 of the Evidence Act, 1872 on the question of relevancy of judgments in the context of conclusiveness of a judgment, order or decree provides:*
>
> > *"**41. Relevancy of certain judgments in probate, etc. jurisdiction**.—A final judgment, order or decree of a competent court, in the exercise of probate, matrimonial, admiralty or insolvency jurisdiction, which confers upon or takes away from any person any legal character, or which declares any person to be entitled to any such character, or to be entitled to any specific thing, not as against any*

specified person but absolutely, is relevant when the existence of any such legal character, or the title of any such person to any such thing, is relevant.

Such judgment, order or decree is conclusive proof—

that any legal character, which it confers accrued at the time when such judgment, order or decree came into operation;

that any legal character, to which it declares any such person to be entitled, accrued to that person at the time when such judgment, order or decree declares it to have accrued to that person;

that any legal character which it takes away from any such person ceased at the time from which such judgment, order or decree declared that it had ceased or should cease;

and that anything to which it declares any person to be so entitled was the property of that person at the time from which such judgment, order or decree declares that it had been or should be his property."

48. *A judgment in rem determines the status of a person or thing as distinct from the particular interest in it of a party to the litigation; and such a judgment is conclusive evidence for and against all persons whether parties, privies or strangers of the matter actually decided. Such a judgment "settles the destiny of the res itself" and binds all persons claiming an interest in the property inconsistent with the judgment even though pronounced in their absence. [G.C. Cheshire & P.M. North, Private International Law, 12th Edn. by North & Fawcett (Eds.) (London : Butterworths, 1992), p. 362.] By contrast, a judgment in personam, "although it may concern a res, merely determines the rights of the litigants inter se to the res". [G.C. Cheshire & P.M. North, Private International Law, 12th Edn. by North & Fawcett (Eds.) (London : Butterworths, 1992), p. 362.] Distinction between judgments in rem and judgments in personam turns on their*

power as res judicata, [G.C. Cheshire & P.M. North, Private International Law, 12th Edn. by North & Fawcett (Eds.) (London : Butterworths, 1992).] i.e. judgment in rem would operate as res judicata against the world, and judgment in personam would operate as res judicata only against the parties in dispute. Use of expressions "rights in rem" and "rights in personam" may not be correct for determining non-arbitrability because of the interplay between rights in rem and rights in personam. Many a times, a right in rem results in an enforceable right in personam. Booz Allen & Hamilton Inc. v. SBI Home Finance Ltd., (2011) 5 SCC 532, refers to the statement by Mustill and Boyd that the subordinate rights in personam derived from rights in rem can be ruled upon by the arbitrators, which is apposite. Therefore, a claim for infringement of copyright against a particular person is arbitrable, though in some manner the arbitrator would examine the right to copyright, a right in rem. Arbitration by necessary implication excludes actions in rem.

49. *Exclusion of actions in rem from arbitration, exposits the intrinsic limits of arbitration as a private dispute resolution mechanism, which is only binding on "the parties" to the arbitration agreement. The courts established by law on the other hand enjoy jurisdiction by default and do not require mutual agreement for conferring jurisdiction. The Arbitral Tribunals not being courts of law or established under the auspices of the State cannot act judicially so as to affect those who are not bound by the arbitration clause. Arbitration is unsuitable when it has erga omnes effect, that is, it affects the rights and liabilities of persons who are not bound by the arbitration agreement. Equally arbitration as a decentralised mode of dispute resolution is unsuitable when the subject-matter or a dispute in the factual background, requires collective adjudication before one court or forum. Certain disputes as a class, or sometimes the dispute in the given facts, can be efficiently resolved only through collective litigation proceedings.*

Contractual and consensual nature of arbitration underpins its ambit and scope. Authority and power being derived from an agreement cannot bind and is non-effective against non-signatories. An arbitration agreement between two or more parties would be limpid and inexpedient in situations when the subject-matter or dispute affects the rights and interests of third parties or without presence of others, an effective and enforceable award is not possible. Prime objective of arbitration to secure just, fair and effective resolution of disputes, without unnecessary delay and with least expense, is crippled and mutilated when the rights and liabilities of persons who have not consented to arbitration are affected or the collective resolution of the disputes by including non-parties is required. Arbitration agreement as an alternative to public fora should not be enforced when it is futile, ineffective, and would be a no result exercise. [Prof. Stavros Brekoulakis, "On Arbitrability : Persisting Misconceptions and New Areas of Concern" essay in the edited collection, Arbitrability : International and Comparative Perspectives(Kluwer, 2009) pp. 19-45.]

50. *Sovereign functions of the State being inalienable and non-delegable are non-arbitrable as the State alone has the exclusive right and duty to perform such functions. [Ajar Raib, "Defining Contours of the Public Policy Exception — A New Test for Arbitrability", Indian Journal for Arbitration Law, Vol. 7 (2018) p. 161.] For example, it is generally accepted that monopoly rights can only be granted by the State. Correctness and validity of the State or sovereign functions cannot be made a direct subject-matter of a private adjudicatory process. Sovereign functions for the purpose of Arbitration Act would extend to exercise of executive power in different fields including commerce and economic, legislation in all forms, taxation, eminent domain and police powers which includes maintenance of law and order, internal security, grant of pardon, etc. as distinguished from commercial activities,*

economic adventures and welfare activities. [Common Cause v. Union of India, (1999) 6 SCC 667 : 1999 SCC (Cri) 119 and Agricultural Produce Market Committee v. Ashok Harikuni, (2000) 8 SCC 61.] Similarly, decisions and adjudicatory functions of the State that have public interest element like the legitimacy of marriage, citizenship, winding up of companies, grant of patents, etc. are non-arbitrable, unless the statute in relation to a regulatory or adjudicatory mechanism either expressly or by clear implication permits arbitration. In these matters the State enjoys monopoly in dispute resolution.

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53. *Dhulabhai v. State of M.P., (1968) 3 SCR 662, is not directly applicable as it relates to exclusion of jurisdiction of civil courts, albeit we respectfully agree with the order of reference that Condition 2 is apposite while examining the question of non-arbitrability. Implied legislative intention to exclude arbitration can be seen if it appears that the statute creates a special right or a liability and provides for determination of the right and liability to be dealt with by the specified courts or the tribunals specially constituted in that behalf and further lays down that all questions about the said right and liability shall be determined by the court or tribunals so empowered and vested with exclusive jurisdiction. Therefore, mere creation of a specific forum as a substitute for civil court or specifying the civil court, may not be enough to accept the inference of implicit non-arbitrability. Conferment of jurisdiction on a specific court or creation of a public forum though eminently significant, may not be the decisive test to answer and decide whether arbitrability is impliedly barred.*

54. *Implicit non-arbitrability is established when by mandatory law the parties are quintessentially barred from contracting out and waiving the adjudication by the designated court or the specified public forum. There is no choice. The*

person who insists on the remedy must seek his remedy before the forum stated in the statute and before no other forum. In Transcore v. Union of India, (2008) 1 SCC 125, this Court had examined the doctrine of election in the context whether an order under proviso to Section 19(1) of the Recovery of Debts Due to Banks and Financial Institutions Act, 1993 ("the DRT Act") is a condition precedent to taking recourse to the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("the NPA Act"). For analysing the scope and remedies under the two Acts, it was held that the NPA Act is an additional remedy which is not inconsistent with the DRT Act, and reference was made to the doctrine of election in the following terms : (Transcore case p. 162, para 64)

"64. In the light of the above discussion, we now examine the doctrine of election. There are three elements of election, namely, existence of two or more remedies; inconsistencies between such remedies and a choice of one of them. If any one of the three elements is not there, the doctrine will not apply. According to American Jurisprudence, 2d, Vol. 25, p. 652, if in truth there is only one remedy, then the doctrine of election does not apply. In the present case, as stated above, the NPA Act is an additional remedy to the DRT Act. Together they constitute one remedy and, therefore, the doctrine of election does not apply. Even according to Snell's Principles of Equity (31st Edn., p. 119), the doctrine of election of remedies is applicable only when there are two or more co-existent remedies available to the litigants at the time of election which are repugnant and inconsistent. In any event, there is no repugnancy nor inconsistency between the two remedies, therefore, the doctrine of election has no application."

***55.** Doctrine of election to select arbitration as a dispute resolution mechanism by mutual agreement is available only if the law accepts existence of arbitration as an alternative remedy and freedom to choose is available. There should not be any inconsistency or repugnancy between*

the provisions of the mandatory law and arbitration as an alternative. Conversely, and in a given case when there is repugnancy and inconsistency, the right of choice and election to arbitrate is denied. This requires examining the "text of the statute, the legislative history, and "inherent conflict" between arbitration and the statute's underlying purpose" [Jennifer L. Peresie, "Reducing the Presumption of Arbitrability" 22 Yale Law & Policy Review, Vol. 22, Issue 2 (Spring 2004), pp. 453-462.] with reference to the nature and type of special rights conferred and power and authority given to the courts or public forum to effectuate and enforce these rights and the orders passed. When arbitration cannot enforce and apply such rights or the award cannot be implemented and enforced in the manner as provided and mandated by law, the right of election to choose arbitration in preference to the courts or public forum is either completely denied or could be curtailed. In essence, it is necessary to examine if the statute creates a special right or liability and provides for the determination of each right or liability by the specified court or the public forum so constituted, and whether the remedies beyond the ordinary domain of the civil courts are prescribed. When the answer is affirmative, arbitration in the absence of special reason is contraindicated. The dispute is non-arbitrable.

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67. *Public policy in the context of non-arbitrability refers to public policy as reflected in the enactment, that is, whether the enactment confers exclusive jurisdiction to the specified court or the special forum and prohibits recourse to arbitration. Public policy in the context of sub-clause (ii) to Section 34(2)(b) refers to the public policy of the enactment, defining and fixing rights and obligations, and application of those rights and obligations by the arbitrator.*

68. *Statutes unfailingly have a public purpose or policy which is the basis and purpose behind the*

legislation. Application of mandatory law to the merits of the case do not imply that the right to arbitrate is taken away. Mandatory law may require a particular substantive rule to be applied, but this would not preclude arbitration. Implied non-arbitrability requires prohibition against waiver of jurisdiction, which happens when a statute gives special rights or obligations and creates or stipulates an exclusive forum for adjudication and enforcement. An arbitrator, like the court, is equally bound by the public policy behind the statute while examining the claim on merits. The public policy in case of non-arbitrability would relate to conferment of exclusive jurisdiction on the court or the special forum set up by law for decision making. Non-arbitrability question cannot be answered by examining whether the statute has a public policy objective which invariably every statute would have. There is a general presumption in favour of arbitrability, which is not excluded simply because the dispute is permeated by applicability of mandatory law. Violation of public policy by the arbitrator could well result in setting aside the award on the ground of failure to follow the fundamental policy of law in India, but not on the ground that the subject-matter of the dispute was non-arbitrable.

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76. *In view of the above discussion, we would like to propound a fourfold test for determining when the subject-matter of a dispute in an arbitration agreement is not arbitrable:*

76.1. *(1) When cause of action and subject-matter of the dispute relates to actions in rem, that do not pertain to subordinate rights in personam that arise from rights in rem.*

76.2. *(2) When cause of action and subject-matter of the dispute affects third-party rights; have erga omnes effect; require centralised adjudication, and mutual adjudication would not be appropriate and enforceable.*

> ***76.3.*** *(3) <u>When cause of action and subject-matter of the dispute relates to inalienable sovereign and public interest functions of the State and hence mutual adjudication would be unenforceable</u>.*
> ***76.4****. (4) When the subject-matter of the dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s).*
> ***76.5****. These tests are not watertight compartments; they dovetail and overlap, albeit when applied holistically and pragmatically will help and assist in determining and ascertaining with great degree of certainty when as per law in India, a dispute or subject-matter is non-arbitrable. Only when the answer is affirmative that the subject-matter of the dispute would be non-arbitrable.*
> ***76.6.*** *However, the aforesaid principles have to be applied with care and caution as observed in Olympus Superstructures (P) Ltd., (199) 5 SCC 651:*
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> *"35...Reference is made there to certain disputes like criminal offences of a public nature, disputes arising out of illegal agreements and disputes relating to status, such as divorce, which cannot be referred to arbitration. It has, however, been held that if in respect of facts relating to a criminal matter, say, physical injury, if there is a right to damages for personal injury, then such a dispute can be referred to arbitration (Keir v. Leeman, (1846) 9 QB 371). Similarly, it has been held that a husband and a wife may refer to arbitration the terms on which they shall separate, because they can make a valid agreement between themselves on that matter (Soilleux v. Herbst, (1801) 2 Bos & P 444, Wilson v. Wilson, (1848) 1 HL Cas 538, and Cahill v. Cahill, (1883) LR 8 AC 420 (HL))."*
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> (Emphasis Supplied)

21. In his Supplementing Opinion, Justice N.V. Ramana, held as under:-

*"**225.** From a study of the above precedents, the following conclusion, with respect to adjudication of subject-matter arbitrability under Section 8 or 11 of the Act, are pertinent:*

***225.1.** In line with the categories laid down by the earlier judgment of Boghara Polyfab [National Insurance Co. Ltd. v. Boghara Polyfab, the courts were examining "subject-matter arbitrability" at the pre-arbitral stage, prior to the 2015 Amendment.*

***225.2.** Post the 2015 Amendment, judicial interference at the reference stage has been substantially curtailed.*

***225.3.** Although subject-matter arbitrability and public policy objections are provided separately under Section 34 of the Act, the courts herein have understood the same to be interchangeable under the Act. Further, subject-matter arbitrability is interlinked with in rem rights.*

***225.4.** There are special classes of rights and privileges, which enure to the benefit of a citizen, by virtue of constitutional or legislative instrument, which may affect the arbitrability of a subject-matter.*

***226.** It may be noted that the Act itself does not exclude any category of disputes as being non-arbitrable. However, the courts have used the "public policy" reason to restrict arbitration with respect to certain subject-matters. In line with the aforesaid proposition, the courts have interfered with the subject-matter arbitrability at the pre-reference stage.*

***227.** However, post the 2015 Amendment, the structure of the Act was changed to bring it in tune with the pro-arbitration approach. Under the amended provision, the court can only give prima facie opinion on the existence of a valid arbitration agreement. In line with the amended language and the statutory scheme, the*

examination of the subject-matter arbitrability may not be appropriate at the stage of reference under Section 8 of the Arbitration Act. It is more appropriate to be taken up by the court at the stage of enforcement under Section 34 of the Act. Having said so, in clear cases where the subject-matter arbitrability is clearly barred, the court can cut the deadwood to preserve the efficacy of the arbitral process.

228. *At this stage a word of caution needs to be said for arbitrators. They have been given jurisdiction to decide on the subject-matter arbitrability. They are required to identify specific public policy in order to determine the subject-matter arbitrability. Merely because a matter verges on a prohibited territory, should not by in itself stop the arbitrator from deciding the matter. He/she should be careful in considering the question of non-arbitrability.*

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244. *Before we part, the conclusions reached, with respect to Question 1, are:*

244.1. *Sections 8 and 11 of the Act have the same ambit with respect to judicial interference.*

244.2. *Usually, subject-matter arbitrability cannot be decided at the stage of Section 8 or 11 of the Act, unless it is a clear case of deadwood.*

244.3. *The court, under Sections 8 and 11, has to refer a matter to arbitration or to appoint an arbitrator, as the case may be, unless a party has established a prima facie (summary findings) case of non-existence of valid arbitration agreement, by summarily portraying a strong case that he is entitled to such a finding.*

244.4. *The court should refer a matter if the validity of the arbitration agreement cannot be determined on a prima facie basis, as laid down above i.e. "when in doubt, do refer".*

> ***244.5.*** *The scope of the court to examine the prima facie validity of an arbitration agreement includes only:*
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> ***244.5.1.*** *Whether the arbitration agreement was in writing? Or*
>
> ***244.5.2.*** *Whether the arbitration agreement was contained in exchange of letters, telecommunication, etc.?*
>
> ***244.5.3.*** *Whether the core contractual ingredients qua the arbitration agreement were fulfilled?*
>
> ***244.5.4.*** *On rare occasions, whether the subject-matter of dispute is arbitrable?"*
>
> (Emphasis Supplied)

22. The Supreme Court has, therefore, held that a distinction is to be drawn between an action *in personam*, that is, actions which determine the rights and interests of the parties themselves in the subject-matter of the case, and actions *in rem*, which refer to actions determining the title to the property and the rights of the parties, not merely among themselves but also against all persons at any time claiming an interest in that property. While rights *in personam* are amenable to arbitration, disputes *in rem* are required to be adjudicated by the Courts and Public Tribunals, therefore, being unsuitable for private arbitration. However, disputes relating to subordinate rights *in personam* arising from rights *in rem* are considered to be arbitrable. The Supreme Court, in fact, gives an example stating that rights under a patent license may be arbitrated, but the validity of the underline patent may not be arbitrable; similarly, a claim for infringement of copyright against a particular person is arbitrable,

though in some manner the arbitrator would examine the right to copyright, a right *in rem.*

23. I must herein also refer to the following observations of Justice Sanjiv Khanna in ***Vidya Drolia and Others*** *(supra),* which was relied upon by the learned senior counsel for the plaintiff:

> *"**77.** Applying the above principles to determine non-arbitrability, it is apparent that insolvency or intracompany disputes have to be addressed by a centralised forum, be the court or a special forum, which would be more efficient and has complete jurisdiction to efficaciously and fully dispose of the entire matter. They are also actions in rem. Similarly, grant and issue of patents and registration of trade marks are exclusive matters falling within the sovereign or government functions and have erga omnes effect. Such grants confer monopoly rights. They are non-arbitrable. Criminal cases again are not arbitrable as they relate to sovereign functions of the State. Further, violations of criminal law are offences against the State and not just against the victim. Matrimonial disputes relating to the dissolution of marriage, restitution of conjugal rights, etc. are not arbitrable as they fall within the ambit of sovereign functions and do not have any commercial and economic value. The decisions have erga omnes effect. Matters relating to probate, testamentary matter etc. are actions in rem and are a declaration to the world at large and hence are non-arbitrable."*
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> (Emphasis Supplied)

24. The above observation of the Supreme Court, however, would not be applicable in the present case, as the present Suit does not relate to an issue of '*grant or issue of or registration of trade mark*'. The present suit is for enforcement of such a right, not against a third party which is a

total stranger to the registered proprietor of the trademark, but someone who claims (whether rightly or wrongly) a right to use the trademark under or through the registered proprietor of the trademark. In fact, as noted hereinabove, the defendant does not even dispute the plaintiff to be the proprietor of the marks in question. What would govern the present dispute would, therefore, be the observations of the Supreme Court which state that where the claim in the Suit is the enforceability of rights *in personam*, flowing out of a right *in rem*, by virtue of the plaintiff being the proprietor of the said marks, the parties are to be referred to arbitration.

25. This Court in ***Hero Electric Vehicles Private Limited and Ors.*** *(supra)*, following the ratio of ***Vidya Drolia and Others*** *(supra)*, held as under:-

> *"39. The following clear principles emerge, from Vidya Drolia MANU/SC/0939/2020, insofar as Section 8 is concerned:*
>
> *xxxx*
>
> *(iv) The arbitrability of the dispute forming subject matter of the suit, and the arbitrability of the claim, are different. A claim may be non-arbitrable because of the scope of the arbitration agreement, not because the subject matter of the claim is essentially not amenable to arbitration. On the other hand, the subject matter of the suit is normally non-arbitrable only if it is not amenable to resolution by arbitration, in law.*
>
> *(v) Non-arbitrability may be said to exist*
>
> > *(a) where the cause of action, and the subject matter of the dispute, related to actions in rem, which do not pertain to*

> *subordinate rights in personam arising from rights in rem,*
>
> *(b) where the cause of action and subject matter of the dispute affects third party rights, or has erga omnes effect, i.e. affects rights owed to all,*
>
> *(c) where the cause of action and subject matter of the dispute require centralised adjudication, and for which mutual adjudication would not be appropriate or enforceable,*
>
> *(d) where the cause of action and subject matter of the dispute relate to inalienable sovereign and public interest functions of the State, not amenable to adjudication by the arbitral process, or*
>
> *(e) where the subject matter of the dispute is non- arbitrable by mandatory statutory fiat.*
>
> *These principles are, however, not watertight, and have to be applied with care and caution.*
>
> *(vi) Specific instances of non-arbitrable disputes are*
>
> *(c) grant and issue of patents and registration of trademarks being exclusive matters falling within the sovereign or government function, having erga omnes effect, conferring monopoly rights,"*
>
> (Emphasis Supplied)

26. In ***Golden Tobie Private Limited*** *(supra)*, this Court reiterated as under:-

> *"**15.** It is clear that the aforenoted judgment of the co-ordinate Bench of this court applies on all fours to the facts of the present case. The court*

held that the dispute did not pertain to infringement of a trademark on the ground that the defendants are using a deceptively similar trademark. The ground was that the right to use the trademark was conferred by a particular agreement on a particular group of the family. Even if the plaintiff in that case were to rely on any provisions of the Trademark Act the essential infraction as allegedly committed by the defendant was not the provisions of the Trademark Act but the provisions of the agreements in question. The dispute which emanates out of the agreement between the parties was held to be arbitrable. The court also clarified that the controversy in the said case did not relate to grant or registration of trademarks. The said trademarks stood granted and registered. It was also held that assignment of a trademark is by a contract and is not a statutory fiat. It does not involve any exercise of sovereign functions.

16. *It is manifest from the facts of this case as narrated above that the dispute in question primarily relates to interpretation of the terms of the Agreement dated 12.02.2020 and the amendment agreement dated 29.08.2020 executed between the parties and as to whether the termination of the said agreements by the defendant and cancellation of the assignment of the trademark in favour of the plaintiffs is legal and valid. The right that is asserted by the plaintiff is not a right that emanates from the Trademark Act but a right that emanates from the Agreement dated 12.02.2020 and the amendment agreement dated 29.08.2020. The assignment of trademark is by a contract and not by a statutory act. It does not involve any exercise of sovereign functions of the State. It cannot be said that the disputes are not arbitrable. The pleas of learned senior counsel for the plaintiff are clearly without merit. The reasons spelt out by the plaintiff for not referring the matter to arbitration are misplaced and without merits."*

27. The plea of the learned senior counsel for the plaintiff that as Section 134 of the Trade Marks Act prescribes that a suit for infringement shall not lie in a Court inferior to a District Court, arbitration would be implicitly barred, cannot also be accepted. In ***Vidya Drolia and Others*** *(supra)*, the Supreme Court while considering the issue of implied ouster of arbitration on account of a statute providing for a specific Civil Court to adjudicate on the rights and liabilities arising out the statute, observed as under: -

> *"**53.**…..Implied legislative intention to exclude arbitration can be seen if it appears that the statute creates a special right or a liability and provides for determination of the right and liability to be dealt with by the specified courts or the tribunals specially constituted in that behalf and further lays down that all questions about the said right and liability shall be determined by the court or tribunals so empowered and vested with exclusive jurisdiction. Therefore, mere creation of a specific forum as a substitute for civil court or specifying the civil court, may not be enough to accept the inference of implicit non-arbitrability. Conferment of jurisdiction on a specific court or creation of a public forum though eminently significant, may not be the decisive test to answer and decide whether arbitrability is impliedly barred."*
>
> *(Emphasis Supplied)*

28. In the present case, Section 134 of the Trade Marks Act does not totally exclude the jurisdiction of the Civil Courts to entertain and adjudicate upon a claim of the infringement of a trade mark. It merely provides that such claim cannot be adjudicated upon by a Court inferior to the Court of a District Judge. The Trade Marks Act, therefore, does not create any specific forum as far as suits for infringement of a trade mark

are concerned as a substitute for a Civil Court. As held by the Supreme Court in ***Vidya Drolia and Others*** *(supra)*, merely specifying which Civil Court is to adjudicate such disputes may not be enough to accept the inference of implicit non-arbitrability of such disputes.

29. In ***Eros International Media Limited*** *(supra)*, the High Court of Bombay negated the submission that Section 134 of the Trade Marks Act would impliedly bar arbitration, by observing as under: -

> *"**16.** Section 62 of the Copyright Act 1957 corresponds almost exactly to Section 134 of the Trade Marks Act, 1999: infringement and passing off actions cannot be brought in a court lower than a jurisdictionally competent District Court, one within whose limits the plaintiff resides or works for gain. I do not think these sections can be read as ousting the jurisdiction of an arbitral panel. All that they mean is that such actions are not to be brought before the registrar or the board, viz., an authority set up by either of those statutes. In fact, Section 134 of the Trade Marks Act, 1999, correctly read, answers in full Mr. Dhond's case of having to pursue a remedy given by statute in a particular forum; for that section contains the same provision as regards trade mark passing off actions and it is well settled that an action in passing off is not in pursuit of a statutory remedy but one in common law. It is a mistake, I think, to see these so-called 'intellectual property' statutes as relating to rights that stand wholly apart from the general body of law. These are special rights to be sure, but they are, at their heart, a species of property and share much with their more tangible cousins to whom acts such as the Sale of Goods Act or the Transfer of Property Act apply. Even those acts confer certain 'rights'; and the registration of a document of title to land (or, for that matter, to a motor scooter) is also in one sense a right against the world, i.e., any other who would lay claim to it. I see no material*

> *distinction between in this regard between being the owner of land and the proprietor of a mark. What Sections 62 of the Copyright Act, 1957 and the Trade Marks Act, 1999 seem to do, I believe, is to define the entry level of such actions in our judicial hierarchy. They confer no exclusivity, and it is not possible from such sections, common to many statutes, to infer the ouster of an entire statute. These sections do not themselves define arbitrability or non-arbitrability. For that, we must have regard to the nature of the claim that is made."*

30. In ***Steel Authority of India Ltd.*** *(supra)*, the High Court of Bombay held as under:-

> *"**4.** The present suit, firstly, is for reliefs against infringement and passing off, which by their very nature do not fall within the jurisdiction of the Arbitrator. The rights to a trademark and remedies in connection therewith are matters in rem and by their very nature not amenable to the jurisdiction of private forum chosen by the parties. Secondly, the disputes concerning infringement and passing off do not arise out of the contract between the parties dated 1 June 2011, which contains the arbitration agreement. Thirdly, there are other parties who are arraigned as party Defendants to the present suit, who are not parties to the arbitration agreement contained in the contract dated 1 June 2011."*

31. The above observations are clearly no longer good law in view of the judgment of the Supreme Court in ***Vidya Drolia and Others*** *(supra).*

32. The judgment of ***A. Ayyasamy*** *(supra)*, relied upon by the learned senior counsel for the plaintiff, has been extensively considered by the judgment of ***Vidya Drolia and Others*** *(supra)* and I, therefore, would not dare to revisit the said exercise; suffice it to say, even the said judgment

does not hold that merely because a claim of a right in a trademark is made, arbitration shall stand ousted.

33. In ***The Indian Performing Right Society Ltd.*** *(supra)*, the High Court of Bombay was considering a case wherein the claimant in the arbitration proceedings had specifically denied that the respondent had any copyright in relation to pre-recorded sound recording and, therefore, denied that the respondent had any right to collect any license fee or royalty in respect thereof. It was in that light that the High Court held that the disputes being one *in rem*, could not have been made subject-matter of arbitration. It was in those peculiar facts, and as rights in *rem* were being determined, that the High Court held that the dispute was not arbitrable. Though in passing, the High Court also placed reliance on Section 62 (1) of the Copyright Act, 1957, which provides that a suit for infringement for copyright in any work shall be instituted in the District Court having jurisdiction, to hold that arbitration was not maintainable, in my opinion, the said view would not be correct in view of the judgment of the Supreme Court in ***Vidya Drolia*** *(supra).*

34. The submission of the learned Senior Counsel for the plaintiff that the plaintiff having chosen the remedy under the Trade Marks Act and not one under the Partnership Act and, therefore, cannot be relegated to arbitration, cannot also be accepted. As held by the Supreme Court in ***Vidya Drolia*** *(supra),* the doctrine of election of remedies is applicable only where there are two or more remedies available to the litigants at the time of election which are repugnant and inconsistent. In the present case, there is no inconsistency or repugnancy shown to exist between the

rights of the plaintiff under the Trade Marks Act and the Partnership Act. The plaintiff cannot breach the arbitration agreement merely by framing the Suit as one under the Trade Marks Act.

35. Sub-Section 1 of Section 8 of the Arbitration Act reads as under:-

> ***"8. Power to refer parties to arbitration where there is an arbitration agreement.***— *[(1) A judicial authority, before which an action is brought in a matter which is the subject of an arbitration agreement shall, if a party to the arbitration agreement or any person claiming through or under him, so applies not later than the date of submitting his first statement on the substance of the dispute, then, notwithstanding any judgment, decree or order of the Supreme Court or any Court, refer the parties to arbitration unless it finds that prima facie no valid arbitration agreement exists."*

36. In ***Vidya Drolia and Others*** *(supra)*, the Supreme Court also considered the issue of '*Who Decides Non-arbitrability?*'. As noted hereinabove, the Supreme Court held that the referral Court under Section 8 of the Arbitration Act, without getting bogged down, would compel the parties to abide by the Arbitration Agreement unless there are good and substantial reasons to the contrary. *Prima facie* examination is not fully a review, but a primary first review to weed out manifestly and *ex facie* non-existent and invalid arbitration agreements and non-arbitrable disputes. It is only where the Court is certain that no valid Arbitration Agreement exists or the disputes/subject-matter are not arbitrable, the application under Section 8 of the Arbitration Act would be rejected. As Hon'ble Mr. Justice Ramana concluded, '*when in doubt, do refer*'.

37. Applying the above principles to the facts of the present case, the present application filed by the defendant under Section 8 of the Arbitration Act deserves to be allowed. In the present case, the disputes that would have to be referred to be adjudicated through arbitration. It would have to be determined as to whether the defendant, who is the partner in the plaintiff firm, can use the trade marks of the plaintiff's firm for his own sole proprietorship concern. The learned counsel for the defendant also claims that there exists an understanding between the partners of the plaintiff firm wherein all the members of the family are permitted to use the plaintiff firm's trade mark **'LIBERTY'** for their respective businesses**.** The same would also be required to be adjudicated by the learned Arbitrator. The effect of the Partnership Act; the terms of the Partnership Agreement; the effect of the registration of the trademarks in favour of the plaintiff; and their licence on exclusive basis to *'M/s Liberty Shoes Limited'*, can all be considered by the arbitrator. As noticed hereinabove, the disputes between the parties would, therefore, flow from the Partnership Deed dated 08.09.2003.

38. In ***P. Anand Gajapathi Raju and Ors. v. P.V.G. Raju,*** (2000) 4 SCC 539, the Supreme Court held that the language of Section 8 of the Arbitration Act is peremptory in nature and therefore, in cases where there is an Arbitration Clause in the agreement, it is obligatory for the Court to refer the parties to arbitration in terms of their arbitration agreement and nothing remains to be decided in the original action after such an application is made, except to refer the dispute to an arbitrator.

39. In ***Vidya Drolia*** *(supra)*, the Supreme Court reiterated this principle in the following words:

> *"**133.** Prima facie case in the context of Section 8 is not to be confused with the merits of the case put up by the parties which has to be established before the Arbitral Tribunal. It is restricted to the subject-matter of the suit being prima facie arbitrable under a valid arbitration agreement. Prima facie case means that the assertions on these aspects are bona fide. When read with the principles of separation and competence-competence and Section 34 of the Arbitration Act, the referral court without getting bogged down would compel the parties to abide unless there are good and substantial reasons to the contrary.*
>
> ***134.** Prima facie examination is not full review but a primary first review to weed out manifestly and ex facie non-existent and invalid arbitration agreements and non-arbitrable disputes. The prima facie review at the reference stage is to cut the deadwood and trim off the side branches in straightforward cases where dismissal is barefaced and pellucid and when on the facts and law the litigation must stop at the first stage. Only when the court is certain that no valid arbitration agreement exists or the disputes/subject-matter are not arbitrable, the application under Section 8 would be rejected. At this stage, the court should not get lost in thickets and decide debatable questions of facts. Referral proceedings are preliminary and summary and not a mini trial. This necessarily reflects on the nature of the jurisdiction exercised by the court and in this context, the observations of B.N. Srikrishna, J. of "plainly arguable" case in Shin-Etsu Chemical Co. Ltd. [Shin-Etsu Chemical Co. Ltd. v. Aksh Optifibre Ltd., are of importance and relevance. Similar views are expressed by this Court in Vimal Kishor Shah [Vimal Kishor Shah v. Jayesh Dinesh Shah, wherein the test applied at the pre-arbitration stage was whether there is a "good*

> *arguable case" for the existence of an arbitration agreement."*

40. In view of the above, I have, therefore, intentionally not dwelled into the details of the disputes between the parties for any observations may be construed as observations on merit of the *inter se* claims of the parties to the Suit. These would have to be necessarily left for the adjudication by the learned Arbitrator.

RELIEF

41. In view of the above, the application filed by the defendant under Section 8 of the Arbitration Act is allowed. The parties are referred to Arbitration in accordance with Clause 14 of the Partnership Deed dated 08.09.2003.

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42. In view of the order passed above, the present Suit and the pending applications stand disposed of.

NAVIN CHAWLA, J.

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