INTELLECTUAL PROPERTY RIGHTS (IPRS) INVESTMENTS UNDER INDIAN BILATERAL INVESTMENT TREATIES: CAN THEY BRAVE THE ENFORCEMENT STORM?

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ABSTRACT

India's Bilateral Investment Treaties (BITs) landscape can be divided into two phases – (i) Pre-Model BIT 2015 phase and (ii) Post-Model BIT 2015 phase. Intellectual Property Rights (IPRs) have been included under the definition of 'investment' under the BITs of both phases. BITs under old phase stipulate asset-based definition including IPRs explicitly. BITs under the new phase stipulate a combination of enterprise-based and close-asset-based definitions of investments, including IPRs. It is clear that Indian BITs have included the IPRs under their scope thereby offering substantive protections. The consequence of such protection is that India may be subjected to awards under the Investor-State Dispute Settlement (ISDS) process. This paper analyzes the two hurdle steps for enforcement of the ISDS awards in India. Firstly, there is a rising debate about a lack of legal framework for the enforcement of investment awards in India. Secondly, even if the enforcement is sought under the Act, the solidity of an award can falter on the grounds of arbitrators' jurisdiction and public policy. In IPRS v. ENL case, the Supreme Court set aside an award ruling on a copyright matter stating that it is a right in rem matter, and hence, not arbitrable. This paper would chart two important issues pertaining to IPRs under the BITs – firstly, the coverage of IPRs under the definition of 'investment' and substantive protections. And secondly, the challenges posed towards the enforcement of such investment arbitral awards involving IPRs as a subject matter.

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I. Brief Overview

The regime of Bilateral Investment Treaties (BITs) began with an unpopular response in the 1960s. After the culmination of the first BIT between Germany and Pakistan in 1959, there had been a total of only 385 BITs till 1989.[2] However, this scenario drastically changed over the next decade as the narrative was put forth that there is a direct nexus between BIT and Foreign Direct Investment (FDI).[3] Several developing countries jumped on this bandwagon of concluding BITs with capital exporting countries. [4] In the 1990s era, the BITs quintupled with a total of 1472 fresh BITs up till 2000.[5] Unlike the previous era, this period witnessed active involvement of the developing countries in negotiating the BITs. India also joined the race and started entering into BITs from the mid-90s. India's BIT landscape can be divided into two phases, i.e. pre-Model BIT 2015 (Model BIT) phase and post-Model BIT phase.[6] India has terminated the majority of its treaties under the Pre-Model BIT phase between 2017-2020; and has been concluding BITs based on the new Model thereon. However, the terminated BITs still carry a sunset clause which provides that the investments made during their force would receive continued treaty protection for 10-15 years subsequent to the treaty termination.[7] Therefore, it is still relevant to understand and analyze the consequences under both terminated and active BITs.

The main purpose of BITs is to provide substantive and procedural protections to the investor and their investments. Traditionally, foreign investors would invest in the host country through moveable and immoveable property, stocks, cash, etc. However, with the modernization and technical advancements, the intellectual property rights (IPRs) have also become a crucial form of investment for investors. Since IPRs are 'territorial rights', the investor would have to get such rights (patents, copyrights, trademarks, industrial designs, etc.) registered in the host country.[8] The host state domestic laws would protect the investors' IPRs against infringement by the third parties. Meanwhile, BITs protect investors' IPRs against actions/omissions by

[2] United Nations Conference on Trade and Development (UNCTAD), Bilateral Investment Treaties 1959-1999, UNCTAD/ITE/IIA/2.
[3] JAN PETER SASSE, AN ECONOMIC ANALYSIS OF BILATERAL INVESTMENT TREATIES 69 (Springer Gabler 2011).
[4] UNCTAD, *supra note* 2.
[5] *Id.*
[6] PRABHASH RANJAN, INDIA AND BILATERAL INVESTMENT TREATIES: REFUSAL, ACCEPTANCE, BACKLASH (OUP 2019).
[7] Claudia Annacker, *Operation and Termination of Sunset Clauses in Bilateral Investment Treaties*, 10 NATIONAL LAW SCHOOL BUSINESS LAW REVIEW 2024, at 9.
[8] LUKAS VANHONNAEKER, INTELLECTUAL PROPERTY RIGHTS AS FOREIGN DIRECT INVESTMENTS (Edward Elgar 2015).

states, such as direct or indirect expropriations or other impairments.[9] Indian BITs have included the IPRs under their scope, thereby, offering substantive protection. The consequence of such protection is that India may be subjected to investment arbitral awards under the Investor-State Dispute Settlement (ISDS) process. The studies have shown that a strong IPRs protection regime has a positive impact on the influx of foreign investments.[10] Furthermore, a strong investment protection regime for IPRs in India will lead to increased investments, technological transfers, innovation and capital generation.[11]

With this backdrop, this paper analyzes the two hurdle steps for enforcement of the ISDS awards in India. Firstly, there is a rising debate about a lack of legal framework for the enforcement of investment awards in India. This debate flows from the Delhi High Court decision which denied entertaining anti-arbitration application of an investment arbitration matter under the Arbitration and Conciliation Act, 1996 (the A&C Act) as it is not under the 'commercial' scope under the New York Convention (the Convention).[12] Secondly, even if the enforcement is sought under the Act, the solidity of an award can falter on the grounds of arbitrators' jurisdiction and public policy. In *IPRS v. ENL*[13] case, the Supreme Court set aside an award ruling on a copyright matter stating that it is a *right in rem* matter, and hence, not arbitrable.

II. IPRs Provisions under the BITs

As described in the previous chapter, India has two generations of BITs, i.e. pre-Model BIT phase and post-Model BIT phase. The *first* phase BITs are typical North-South BITs with stronger protection terms for the investor as against the regulatory power of the host state. Consequently, in 2011 India faced its first defeat under India-Australia BIT in *White*

[9] Carlos Correa and Jorge Vinuales, *Intellectual Property Rights as Protected Investments: How Open are the Gates*, 19 JOURNAL OF INTERNATIONAL ECONOMIC LAW 2016, at 91.
[10] Hitoshi Tanak and Ratsuro Iwaisako, *Intellectual Property Rights and Foreign Direct Investment: A Welfare Analysis,* 67 EUROPEAN ECONOMIC REV. 2014 at 107.
[11] Saurav and Nalin Bharti, *Industrial Designs and FDI – India and Its Economic Partners,* 83 JOURNAL OF SCIENTIFIC AND INDUSTRIAL RESEARCH 2024, at 1349; Supriya Bhandarkar and Meenakshi Rajeev, *Determinants of FDI in the Indian Pharmaceutical Industry with Special Reference to Intellectual Property Rights: Evidence from a Time-Series Analysis (1990-2019),* ISEC Working Paper No. 508, Institute for Social and Economic Change (2020).
[12] The Board of Trustees of the Port of Kolkata v. Louis Dreyfus Armatures, G.A., 1997 of 2014 & C.S. No 220 of 2014.; Union of India v. Vodafone Group Plc United Kingdom and Anr., CS(OS) 383/2017 & I.A. No. 9460/2017.
[13] Indian Performing Rights Society Ltd. v. Entertainment Network (India) Ltd. 2016 SCC OnLine Bom 5893.

Industries.[14] Soon after, the executive demanded that the legislative body work on a new Model BIT, which would strengthen the host states' regulatory power as well. Finally, the Model BIT was introduced in 2015.

2.1 IPRs under First Generation BITs

Between 2017-2021, India terminated seventy-five (75) of eighty-three (83) first generation BITs.[15] However, all of these terminated treaties contain a sunset clause for either ten (10), fifteen (15) or twenty (20) years. The termination clause usually provides that, '*the Agreement shall continue to be effective for a further period from the date of its termination in respect of investments made or acquired before the date of termination of this Agreement.*'[16] The purpose is that if an investment is already established in the host state, they are given treaty protection for additional time despite sudden changes in regulatory framework.[17]

Therefore, it is possible that the investment made by investors prior to the termination period may still bring claims against India. These investor claims would be contemplated under the terminated treaty provisions. Thus, the definition, substantive and procedural provisions of these terminated treaties remain relevant. The definition of 'investment' is based on an asset-based approach with a non-exhaustive list that includes IPR as an asset.[18]

Out of eighty-three (83) first generation treaties, a total of thirty-six (36) simply provides 'intellectual property rights as per relevant laws' in the list. The remaining forty-seven (47) treaties further expand on the term 'intellectual property rights' by stipulating an inclusive list and specifying particular IPRs such as *'...including patents, copyrights, registered designs, trademarks, trade names, technical processes, knowhow and goodwill in accordance with the relevant laws.'*

Use of the single phrase 'IPRs' or the phrase 'IPRs with an inclusive list' does not create any significant difference in the scope of IPRs related investment. However, the inclusive list would

[14] White Industries Australia Limited v. Republic of India IIC 529 (2011).
[15] DEPARTMENT OF ECONOMIC AFFAIRS: BILATERAL INVESTMENT TREATIES, https://dea.gov.in/bipa?page=6 (last visited Mar. 5, 2023).
[16] Claudia Annacker, *supra note* 7.
[17] Catharine Titi, *Most-Favoured-Nation Treatment: Survival Clauses and Reform of International Investment Law* 5 JOURNAL OF INTERNATIONAL ARBITRATION 425 (2016).
[18] EMMANUEL KOLAWOLE OKE, THE INTERFACE BETWEEN INTELLECTUAL PROPERTY AND INVESTMENT LAW: AN INTERTEXTUAL ANALYSIS (Edward Elgar 2021).

make investors' claim under those enlisted categories easier. In some BITs,[19] the term used is copyrights, patents and '*related rights'.* For instance, if an investor's patent application is rejected by the host state authorities, even though he cannot qualify under the term 'patents', he can still make a case under *related rights.*[20]

2.2. IPRs under Second Generation BITs

Post 2015, India has entered into six (6) bilateral investment agreements based on the boilerplate provisions provided under the Model BIT. In these second generation agreements, India has focused on the very specific definition of IPRs, i.e. '*IPRs as listed in Article -1 of the TRIPs Agreement of the World Trade Organization (WTO)*.' This ensures that India's commitment under the WTO regime towards the framework and protection of IPRs are in consonance with its obligations under the investment agreement.[21]

Even though India has not yet faced any particular IPRs claims under investment treaty, with rising importance of technology, pharmaceuticals and know-how, IPRs investments are also gaining significance. In 2013, Novartis, a Swiss pharmaceutical giant, lost its case before the Supreme Court of India over the issue of denial of their patent application.[22] Simply put, the issue is a state action impacting investors' IPRs in the host state, i.e. India. Novartis did not invoke the Indian-Swiss BIT against India. However, this event factored in freezing of the trade-investment negotiation deal between India and EFTA for over a decade.[23] Switzerland advocated a strong protection regime for investors' IPRs in India. It was only in 2024 that the India-EFTA Agreement was finalized and signed with a strong protection regime for the IPRs regime in the host countries.[24] It is obvious that IPRs as an 'investment' under an investment agreement guarantees equitable treatment, transfer, protection against expropriation and national and most-favoured nation treatment (depending upon provisions of the investment

[19] Agreement between the Government of the Republic of India and the Federal Government of the Federal Republic of Yugoslavia for the Reciprocal Promotion and Protection of Investments (2003); Agreement between the Government of the Republic of India and the Government of the Republic of Slovenia on the Mutual Promotion and Protection of Investments (2011); Agreement between the Republic of India and the Slovak Republic for the Promotion and Reciprocal Protection of Investments (2006).
[20] Lukas Vanhonnaeker, *supra note* 8.
[21] Prabhash Ranjan, *Trade-Related Aspects of Intellectual Property Rights Waiver at the World Trade Organization: A BIT of a Challenge* 3 JOURNAL OF WORLD TRADE 523 (2022).
[22] Novartis Ag vs Union Of India & Ors. AIR 2013 SC 1311.
[23] Jessica Davis Pluss and Pauline Turuban, *Swiss Trade Deal: Is India Changing its Tune on Pharma Patents?* SWISS INFO, Feb. 27, 2024.
[24] Trade and Economic Partnership Agreement between the EFTA States and the Republic of India (2024).

agreement). It is time and again highlighted that with strong IPRs protection laws, India can exponentially witness an increase in its FDI.[25] This reflects a sense of importance in investors' decision making while they are making investments in India. State obligations towards protection and promotion under an investment treaty would further strengthen the investor's trust. That is why it is important to examine protection and potential claims concerning IPRs related investments.

2.3 IPRs Claims vis-à-vis Compulsory Licensing Regulatory Measures

Compulsory licensing is an important regulatory space provided to the host states, wherein they can restrict the exclusive rights of IPRs holders for legitimate purposes. This particular regulatory right is offered by TRIPS Article 31 which stipulates that compulsory license can be regulated in three manner: (1) when there is failure of efforts to negotiate reasonable commercial terms and conditions; (2) when there is national emergency, example – COVID 19; or (3) for purposes of non-commercial public use.[26] One might foresee possible investment treaty claims when a host state undertakes compulsory licensing of an IPRs. During COVID-19, significant focus has been placed on pharmaceutical companies with patents for essential medicines and vaccines.[27]

Under the second generation BITs, the claims relating to compulsory licensing have explicitly been carved out and protected in favour of the host state.[28] As a result, the investor of an IPRs investment cannot bring expropriation claims against the host state if such is a compulsory licensing measure.[29] However, under the first generation BITs, there is no such exception for regulatory action. Hence, under the sunset BITs as well as under the active BITs, an investor

[25] PRS Legislative Research, *Standing Committee Report Summary: Review of the Intellectual Property Rights Regime* (2021), https://prsindia.org/files/policy/policy_committee_reports/Report%20summary_IPR%20Regime.pdf (last visited Mar. 5, 2025).
[26] Lahra Liberti, *Intellectual Property Rights in International Investment Agreements: An Overview*, OECD Working Papers on International Investment (2010).
[27] Olga Gurgula and John Hull, *Compulsory Licensing of Trade Secrets: Ensuring Access to COVID-19 Vaccines Via Involuntary Technology Transfer,* JOURNAL OF INTELLECTUAL PROPERTY LAW AND PRACTICE 2012, at 1.
[28] Treaty between the Republic of Belarus and the Republic of India on Investments (2018) art. 2.4; Agreement between The India Taipei Association in Taipei And The Taipei Economic and Cultural Center in New Delhi on The Promotion and Protection of Investments (2018), art. 2.4; Bilateral Investment Treaty between the Government of Kyrgyz Republic and the Government of the Republic of India (209), art. 2.4; Investment Cooperation and Facilitation Treaty between the Federative Republic of Brazil and the Republic of India (2020), art. 3.6; Bilateral Investment Treaty between the Government of the Republic of India and the Government of the United Arab Emirates (2014), art. 2.4.
[29] Lahra, *supra note* 26.

may bring a claim against the Indian government concerning compulsory licensing of their IPRs investment.

III. IPRs Investment Awards' – Inadequate Enforcement Framework

3.1 'Commercial Reservations' Scope under the Convention

Article I(1) of the Convention stipulates its applicability upon arbitral awards '*arising out of differences between persons, whether physical or legal*.'[30] The qualifying phrase is broad-ranging and potentially covering all types of disputes.[31] In order to limit it, Art I(3) stipulates incorporation of commercial reservations by the member states. When opted, the Convention applicability scope would be limited to *'...only to differences arising out of legal relationships, whether contractual or not, which are considered as commercial under the national law of the State making such declaration.*'[32] Fifty-four (54) out of one hundred and sixty four (164) signatories have made these 'commercial reservations' limiting the scope of application of the Convention.[33]

As per Art 31(1) of Vienna Convention, '*a treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose.*'[34] While interpreting a treaty phrase or term, there are two rules which should be followed i.e. *good faith* and *context, object and purpose.*[35] Therefore, this must be kept in mind while interpreting the term 'commercial legal relationship.'

Another important point to note is that until the enforcement year of the Convention, i.e. 1959, no prominent investment treaties envisaged the ISDS mechanism. In fact, the world's first BIT was entered only in 1959 between Germany and Pakistan and this also envisaged State-State

[30] Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), 330 U.N.T.S. 38 (1958), art. I(1).
[31] *Travaux Preparatoires, The Convention on the Recognition and Enforcement of Foreign Arbitral Awards* 10 June 1958, available at https://www.newyorkconvention.org/english.
[32] New York Convention, art. I(3).
[33] New York Convention, *Contracting States,* available at: https://www.newyorkconvention.org/countries (last visited Mar. 5, 2025).
[34] Vienna Convention on the Law of Treaties (1969), art. 31.
[35] RICHARD GARDINER, INTERPRETATION APPLYING THE VIENNA CONVENTION ON THE LAW OF TREATIES (OUP 2015).

Dispute Settlement method.[36] The origin of ISDS provisions under International Investment Agreements (IIAs) can only be traced back to the 1970s.[37] Hence, it must be appreciated that at the time of drafting the Convention, the drafters did not have real-time evidence to address investment disputes.

Now the obvious question arises – did the drafters of the Convention intend on including 'investment treaty disputes' under the scope of 'commercial disputes'?

During initial drafting of the Convention, the drafters contemplated if they should include '…arising out of commercial disputes' instead of '*legal disputes.'* However, after noting that certain countries do not distinguish between civil and commercial disputes, it was decided not to refer the disputes categorically as 'commercial'. The commercial reservations were, in fact, added on the last day of the drafting Conference after the Netherlands pointed out that many countries did distinguish between civil and commercial matters.[38] Essentially, the civil law branch concerns private rights of an individual such as marriage, property, etc. This may or may not include commercial law under its branch, which includes rights of individuals engaged in commerce, merchandising, trade, sales, etc.

3.2 Definition of Commercial under Indian Laws

The A&C Act has two parts concerning the arbitration matters – Part I for Indian seated arbitrations and Part II for foreign seated arbitrations. Both the Parts are applicable upon 'commercial arbitrations'.[39] Under Part I, the international commercial arbitration is defined as a '*dispute.. considered commercial under the law in force in India*'.[40] Part II of the Act operates to enforce foreign awards which arise from '*disputes…considered as commercial under the law in force in India.*'[41] Furthermore, the jurisdiction of the arbitration related matter is with the Courts defined under Section 2(1)(e) of the A&C Act which is conjointly read with Section

[36] Treaty between the Federal Republic of Germany and Pakistan for the Promotion and Protection of Investments (1959).
[37] Agreement Between the Republic of Korea, on the one hand, and the Luxemburg Economic Union, on the other hand, on the Encouragement and Reciprocal Protection of Investments (1974); Agreement on Economic Co-operation between the Kingdom of the Netherlands and Malaysia (1971); Economic Cooperation Agreement between the Government of the Kingdom of the Netherlands and the Government of the Kingdom of Morocco (1971); Convention Between The Government of The French Republic And The Government of the Republic of Tunisia on the Protection of Investments (1972).
[38] *Travaux Preparatoires, supra note* 31.
[39] The Arbitration and Conciliations Act, 1996 (A&C Act), *preamble.*
[40] A&C Act, s. 2(1)(f).
[41] A&C Act, s. 44.

10 of the Commercial Courts Act (CCA Act). It stipulates jurisdiction of the commercial courts '*where the subject matter of the arbitration is a commercial dispute*'.[42] The term 'commercial disputes' is defined under Section 2(c) wherein it includes that disputes relating to '*intellectual property rights relating to registered and unregistered trademarks, copyright, patent, design, domain names, geographical indications and semiconductor integrated circuits'*.[43] On a plain reading, in a dispute relating to investment in IPRs might fall under the scope of Section 2(1)(c)(xvii) since there are no other qualifiers. For instance, qualifiers include 'ordinary transactions' for mercantile transactions[44] and 'used in trade and commerce' for immovable property[45]. The courts have interpreted the transactions strictly within the scope of such qualifiers. In *Ambalal,*[46] the Supreme Court division bench also observed that the object and purpose of the CCA Act is expeditious, fair and reasonable recourse to litigants of commercial disputes. For furtherance of such objective, the court cautioned that the definition of 'commercial disputes' should not be subjected to a wide interpretation. In fact, the limits of 'commercial disputes' should be within the spectrum of trade and commerce matters. Traditionally, commercial transactions are related to short-term transactions to generate profits, whereas investment transactions are related to long-term capital investment subject to risks to generate returns. Under the Phase-I BITs, there was no express classification of the investment disputes. However, under the Phase-II BITs, the ISDS disputes are expressly classified as 'commercial disputes' under the Convention, and thus, under the A&C Act.[47]

3.3 Indian Courts Interpretation of 'Commercial' Legal Relationships

The stance of Indian courts on interpreting the term 'commercial disputes' especially under the Convention has always been pragmatic and flexible. The case of *Lief Hoegh & Co.*[48] involved the enforcement of arbitral award under Foreign Award Act (now reflected in Part II of the A&C Act). The dispute was under a charter party agreement between India and foreign vessel owners. It was contested that the charterparty agreement is not of 'commercial' nature and hence, not within the scope of the Convention. The court construed the phrase as the "largest

[42] The Commercial Courts Act, 2015 (CCA Act), s. 10.
[43] CCA Act, s. 2(1)(c)(xvii).
[44] Ladymoon Towers Pvt Ltd. v. Mahendra Investment Advisors Pvt. Ltd., 2021 SCC Online Cal 2082; Glasswood Realty Pvt. Ltd. v. Chandravilas Kothari, 2021 SCC Online Bom. 5032.
[45] Ambalal Sarabhai Enterprises Ltd. v. K.S. Infraspace LLP, (2019) 13 SCALE 575.
[46] *Id.*
[47] India-Belarus BIT, art. 27.5; India-Kyrgyz Republic, art. 27.5; India-UAE BIT, art. 28.5.
[48] Union of India v. Lief Hoegh & Co. and Ors., AIR 1983 Guj 34.

import" encompassing "all the business and trade transactions in any of their forms." In a nutshell, the Court pointed out how there is no comprehensive definition of what constitutes 'commercial dispute'. The court listed a few trade-related matters such as merchandise, insurance, etc., but pointed out that such a list is not exhaustive. This might indicate that the list of 'commercial' transactions is ever-changing according to the time.[49]

The first investment treaty arbitration interface with the Indian Court was in *Port of Kolkata v. Louis Dreyfus Armatures, GA*[50]*,* wherein the Union of India sought anti-arbitration injunction under the Indo-French BIT. Neither the parties nor the court on its own examined the applicability of A&C Act to investment treaty arbitration. In fact, the Calcutta High Court assumed it had jurisdiction under Section 45 of the A&C Act without any second guessing. One may say that all was going well until recently when Delhi High Court excluded investment arbitral awards from the scope of the Convention.

In *Vodafone Group Plc*[51] matter, India sought an anti-arbitration injunction suit. The Single Judge Delhi High Court bench, while contemplating jurisdictional arguments regarding the anti-arbitration injunction under India-UK BIT, observed that '*investment disputes are fundamentally different from commercial disputes.* Further noting India's commercial reservations under the Convention, the court held that investment treaty disputes do not fall under the 'commercial scope' of A&C Act. It is interesting to note that neither of the counsels argued the applicability of A&C Act to investment treaty disputes. The Court further clarified that investment treaty disputes are rooted in public international law, the obligation of the State and administrative law. The main issue in the case was whether to grant an anti-arbitration injunction. The Court contemplated strict jurisdiction set by Indian courts, they do not have inherent power to grant such injunctions if there is jurisdiction under the A&C Act. However, the Court quickly made a significant observation that '*as this is not a commercial arbitration, the Convention will not apply.'* The court, however, rejected injunction '*as a matter of self-restraint.'* And further reiterated that the Court would only grant injunctions where '*there are compelling circumstances and the Court has been approached in good faith and no alternative*

[49] R.M. Investments & Trading Co. Pvt. Ltd. v. Boeing Co., 1994 SCC (4) 541
[50] Louis Dreyfus Armatures, *supra note* 12.
[51] Vodafone Group Plc, *supra note* 12.

efficacious remedy is available.'[52]

While contemplating the jurisdictional contentions in *Khaitan Holdings,*[53] Delhi High Court reiterated *Vodafone* case and stated that '*arbitration proceedings under BITs are not governed by the A&C Act as they are not commercial arbitrations.*' Hence, under both cases, the courts assumed their jurisdictions under the Code of Civil Procedure, 1908.

One must note the cruel irony. In 1982, the High Court broadly interpreted the term 'commercial disputes' under the Convention. Now, in 2019, one of the High Courts has restricted the scope of this term without giving any regard to the drafter's intent, current international practice, and appreciation of new facets and the expanding nature of commerce.

3.4 Foreign Courts Interpretation of 'Commercial' Legal Relationships

The Indian courts have dealt with a particular legal issue under investment treaty arbitrations, i.e., the Indian government seeking anti-arbitration injunctions against the arbitration initiated by the investors under the investment treaty. The exact issue of setting aside and enforcement of investment arbitral award under the Convention was decided by the Supreme Court of British Columbia. The case[54] involved setting aside proceedings instituted by the Mexican government against the award issued under the NAFTA arbitral award in favour of the US investor. The court was directly put forth with the argument that the Convention (mirrored in International Commercial Arbitration Act 1996 and Commercial Arbitration Act 1996) do not cover investment treaty arbitrations. The Mexican government argued that the dispute between Mexico and Metalcald (investor) is of a 'regulatory nature'. However, the court noted two things – *firstly,* the Canadian arbitration law gives a non-exhaustive list of what constitutes to be 'commercial', and one of the examples is 'investing'. *Secondly,* the court noted that '*primary relationship between Metalclad and Mexico was one of investing and the exercise of a regulatory function by Municipality was incidental to that primary relationship.*' US court in *BG Group Plc,*[55] assumed supervisory jurisdiction of US court over international treaty arbitration matters under the Convention. It is important to highlight that both Canada and the

[52] Prabhash Ranjan & Pushkar Anand, *Indian Courts and Bilateral Investment Treaty Arbitration* 2 INDIAN LAW REVIEW 1999 (2020).
[53] Union of India v. Khaitan Holdings (Mauritius) Limited & Ors, CS (OS) 46/2019, I.As. No 1235/2019 & 1238/2019.
[54] United Mexican States v. Metalclad Corp., 2001 BCSC 664.
[55] BG Group Plc v. Republic, 134 S.Ct. 1198 (2014).

US have commercial reservations as India under the Convention.

Comparing Indian courts holding with the USA and Canadian courts might reflect a lack of a pro-arbitration approach on the part of the former. However, that will be an unreasonable argument. The Canadian courts involved investment treaty matters because of 'investing' given as a matter to be considered as 'commercial'. And in *BG Group,* the facts involved an exclusive distribution gas license between Argentina and a British investor under the Investment treaty. Delhi High Court rationale is rooted in the fact that arbitration was invoked under the investment treaty against regulatory actions taken by the Indian government, leading to FET and expropriation claims.

In a note prepared by the World Bank Group, the different nuances of 'commercial' and 'investment' legal matters under the Convention were highlighted, and it was suggested that the Convention can be material for enforcement of investment awards as well. [56]

3.4 Alternative Enforcement Recourses of Investment Treaty Awards in India

If an investment award is not enforced under Part I or II of A&C Act, the only alternative with the award creditor would be to approach Indian courts to seek relief.[57] The CPC does provide enforcement procedures for foreign judgments of reciprocating and non-reciprocating countries.[58] So far, the enforcement of international or foreign awards has been dealt with specifically under the A&C Act.[59] So it is questionable, if the Courts would exercise their jurisdiction to provide relief for awards beyond A&C Act.

Apart from the New York and Geneva Conventions, which have 'commercial reservations', there is no other international convention to fall back on for enforcement of ISDS awards. Historically, one of the first ISDS was between Egypt and the Suez Canal Company. The enforcement of resultant award was achieved through parties' self-compliance and diplomatic

[56] Xavier Forneris and Nina Mocheva, *A Critical Tool for Enforcement of international Arbitration Decisions* (2018) available at: https://documents1.worldbank.org/curated/en/726311577800894244/pdf/How-Countries-can-Fully-Implement-the-New-York-Convention-A-Critical-Tool-for-Enforcement-of-International-Arbitration-Decisions.pdf (last visited Mar. 5, 2023).
[57] A&C Act, s. 36, 48.
[58] Code of Civil Procedure, 1908 (CPC), sec. 44A, Order XXI.
[59] Nishith Desai Associates, *Enforcement of Arbitral Awards and Decrees in India – Domestic and Foreign* (2024) available at: https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research_Papers/Enforcement_of_Arbitral_Awards.pdf (last visited Mar. 5, 2023).

intervention.[60]

IV. IPRs Investment Awards' – Possible Grounds for Enforcement

Article V of the Convention has two grounds for refusal of recognition and enforcement of the arbitral award. Article V(1) stipulates the grounds which must be invoked at the request of a party given they furnish the requisite proof. Article V(2) is significant as it provides two grounds for refusal of recognition and enforcement of arbitral award at the *suo moto* action of the enforcement courts. These two grounds are mirrored in Section 34(2) and (2A) under Part I and in Section 48 of Part II of the A&C Act. Section 34 provides grounds for setting aside of domestic and international arbitration award emanating from the Indian seat. Section 48 provides ground for challenging the enforcement proceeding of a foreign seated arbitral award.

Part I would come into play when the ISDS provision would stipulate India as the seat of arbitration. Though the chances of this are highly unlikely as – (i) the usual practice under ISDS is to refer to institutional arbitration providing for a neutral seat; (ii) as a practice even under *ad hoc* arbitration, the parties often chose a neutral seat. When ISDS involve a foreign seat, then Part II of the A&C Act would be applicable for enforcement of resultant foreign award in India.

There is a foreseeable possibility to challenge the award under both the grounds, i.e. (i) 'the *subject matter of dispute is not capable of settlement through arbitration, ' and* (ii) '*the arbitral award is in conflict with public policy of India.*'[61]

4.1 Challenging the Arbitrability of IPRs Investment Claims

As far as the first ground is considered in relation to arbitrability of the subject matter, i.e. IPRs as an investment, the Convention stipulates arbitrability '*under the law of that country'* as a ground for refusal of recognition and enforcement. Section 34(2)(i) or 48(2)(i) do not provide any expansive description of arbitrable and non-arbitrable matters. This leaves it upon the Indian courts to determine such arbitrability based on the facts and circumstances. Over the

[60] Jason Webb Yackee, *The First Investor-State Arbitration,* UNIV. OF WISCONSIN LEGAL STUDIES RESEARCH PAPER SERIES PAPER NO. 1375 (2015).
[61] A&C Act, s. 34(2)(b)(i), 34(2)(b)(ii).

years, the courts have made a successful attempt to streamline a test for judging the arbitrability of a matter.

The Indian Supreme Court in *Booz Allen* first laid down the test for arbitrability of the subject matter.[62] In this case, the arbitration was invoked under a tripartite agreement between the mortgagor, mortgagee and lessee of the property (two flats). The lessee initiated the arbitration seeking possession of the two flats and settlement of mortgage claims made by the mortgagee. The Supreme Court analysed the 'arbitrability of a dispute' from three perspectives – (i) whether the disputes are capable of adjudication and settlement by arbitration; (ii) whether the disputes are covered by arbitration agreement; and (iii) whether the parties have referred the disputes to arbitration.

The present paper has already established that the investment disputes involving subject matter as IPRs would be within the ambit of an investment treaty. The reference of such dispute to arbitral tribunal is irrelevant for the present discussion.

Section 34(2) and 48(2) also primarily focus on the first perspective, i.e. whether the disputes are capable of adjudication and settlement by arbitration. While examining, the Supreme Court further identified three broad subject matters which could be considered as non-arbitrable – (i) subject matter exclusively excluded from arbitration under a legislature; (ii) matters involving public policy matters which must be decided through court intervention; and (iii) matters relating to *right in rem* actions.[63]

Under the *Booz Allen* facts, the Court concluded that the Transfer of Property Act required the joinder of all third parties who may be interested in the rights of a property and the judgment would operate against not only the parties to the suit but also other third parties. Thus, a matter or a dispute praying for *right in rem* is considered to be non-arbitrable due to two rationales - (i) in a *right in rem,* a judgement/decision is enforceable against the world at large i.e. any third party who may have an interest in the subject matter; (ii) and, as a result, the court may also order the joinder of such third parties to the suit.

This was further propounded by the Supreme Court in *Vidya Drolia*.[64] The case involved

[62] Booz Allen and Hamilton Inc. v. SBI Home Finance Ltd. & Ors., (2011) 5 SCC 532.
[63] *Id.*
[64] Vidya Drolia & Ors. v. Durga Trading Corporation, AIR 2019 SC 3498.

deliberation upon arbitrability of a tenancy matter wherein the court devised a four-fold test for determining when the subject matter is not capable of arbitration:

i. 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.

ii. when cause of action and subject matter of the dispute affects third party rights; have *erga omnes* effect; require centralized adjudication, and mutual adjudication would not be appropriate and enforceable;

iii. 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; and

iv. when the subject-matter of the dispute is expressly or by necessary implication non-arbitrable as per mandatory statute(s).

The court further clarified that these tests are not watertight and a matter may overlap through one or more criteria. In essence, the court has expanded and formally re-structured the non-arbitrability factors deliberated in *Booz Allen.* While examining the subject matter involving IPRs under this test, it can be positively concluded that the fourth test shall not be applicable as none of the domestic IPRs statutes in India include arbitration exclusion provision. The third test will be analysed in the next section. The first and second test application to IPRs matters leads to two scenarios, i.e. where IPRs matters fall under the tests and are held to be non-arbitrable; and where IPRs matters fall outside the purview of the tests and are held to be arbitrable.

Considering the first scenario, in *IPRS*[65] matter, ENL was the operator of a private FM radio and IPRS was a non-profit organization registered under the Copyright Act, monitors, protects and enforces the rights of various authors of works. As a result, IPRS owned copyrights to several national and foreign works. IPRS licensed ENL to broadcast its work publicly on the radio stations. The dispute arose when IPR terminated their agreement with ENL, and the arbitral tribunal awarded that ENL did not need to obtain musical and literary rights from IPRS.

[65] IPRS v. ENL, *supra note* 13.

ENL can obtain sound recording rights from original authors. Hence, IPRS cannot claim damages. IPRS challenged award under Section 34 of the Act.

The court held that the arbitrator, while holding that ENL was not required to obtain a license from IPRS, differentiated between the rights held in original musical works and in sound recordings. As a result, the award destructed IPRS's rights as a licensor *"not only against the claimant, but also against the world at large."* Essentially, the award negated the need to obtain licenses from IPRS, and such a holding would affect respondent party as well as *"various other owners of the copyright in the underlying works who were not the members of the respondent society or otherwise".* Hence, concluding that the adjudication was one *in rem.*

Hence, in this first category of IPRs cases, the decision concerns adjudication of *rights in rem* operable against the world. Similar test and ruling were concluded in other IPRs cases as well.[66]

In *Eros International,*[67] the plaintiff was the copyright owner of certain films and entered into a term agreement with the defendant for distribution of such content. The dispute arose when this term agreement did not culminate into a final agreement and the defendant continued to use the material. The plaintiff initiated suit for claiming damages and injunction against the defendant, who in turn, demanded arbitration. The Court, while adjudicating the arbitrability of the subject matter i.e., copyright infringement, held that the action in a copyright infringement and the remedy sought are *in personam*. The reason is that a proprietor holder of a copyright has a right against the world at large, and a claim for copyright infringement is against an individual and only binds that particular party.

In this second category, even though the subject matter includes IPRs but the dispute centres around subordinate rights of parties under these IPRs, hence a *right in personam.* Similar tests and rulings were concluded in other IPRs cases as well.[68]

[66] SAIL v. SKS Ispat and Power Ltd., 2014 SCC OnLine Bom 487; Deepak Thorat v. Vidli Restaurant Ltd., 2017 SCC OnLine Bom 7704; Diamond Apartments Pvt Ltd v. Abanar, 2015 SCC OnLine Cal 9348; Marketing Ltd. Lifestyle Equities C V, v. Q D Seatoman Designs (P) Ltd (2019), 12 SCC 751.
[67] Eros International Media Ltd. v. Telemax Links India Pvt. Ltd., 2016 SCC OnLine Bom 2179.
[68] Hero Electric Vehicles Private Limited and Ors. v. Electro E-mobility Private Limited and Ors., 2021 SCC OnLine Del 1058; Angath Arts (P) Ltd. v. Century Communications Ltd., 2008 SCC OnLine Bom 475; Ministry of Sound International v. M/S Indus Renaissance Partners, 2009 SCC OnLine Del 11; Deepak Thorat v. Vidli Restaurant Ltd., 2017 SCC OnLine Bom 7704; Impact Metals Ltd. and Ors. v. MSR India Ltd. and Ors., AIR 2017 AP 12.

4.2. Public Policy and Arbitrability of IPRs Investment Claims

Article V(2)(b) of the Convention provides the ground for enforcement where '*the recognition or enforcement of the award would be contrary to that public policy of that country.'* The Convention signatories have incorporated this provision under their arbitration laws.

The Indian Government has invoked this ground to challenge the validity and enforcement of investment award in *Cairn Energy PLC and Cairn UK Holdings Limited (CUHL) v. Government of India.*[69] Of course, when India is filing for setting aside the award at the seat of arbitration, i.e., the Hague or the jurisdictions where the claimant sought its enforcement, i.e. France and the USA, the ground for 'public policy' would be interpreted according to the respective jurisdictions. The matter involved a challenge of retrospective amendment of Indian tax laws which affected the rights of foreign investors under India-UK BIT. While challenging the award under public policy grounds, India argued that the retrospective tax laws are a matter of sovereign autonomy and private tribunals cannot rule over such public policy matters.[70] Ultimately, finance matters such as tax laws are integral to the economic interests of India. Similar argument has been made in the pending setting aside proceedings before the Singapore High Court in the India-Vodafone matter.[71]

Under the premises of the present paper, the analysis pertains to the enforceability of such investment award within the Indian jurisdiction. Both sections 34(2)(b) and 48(2)(b) of the A&C Act lay down the ground for refusal of recognition and enforcement of arbitral award, which is in '*conflict with the public policy of India.'* Vide 2015 amendment, an explanation was added to these provisions stipulating the scope of 'public policy.' Ground (ii) provides that arbitral award is in conflict with the public policy if '*it is in contravention with the fundamental policy of Indian law'.*[72]

A rational nexus can be drawn with the public policy argument for investment awards involving IPRs as subject matter. The fourth recital of TRIPS Preamble states, '*recognizing the underlying public policy objectives of national systems for the protection of intellectual*

[69] Cairn Energy PLC and Cairn UK Holdings Limited (CUHL) v. Government of India, PCA Case No. 2016-7.
[70] Republic of India v. Cain Energy PLC, Hague Court of Appeal 200.300.263/01.
[71] Aftab Ahmed and Aditi Shah, *India Challenges Vodafone Arbitration Ruling in Singapore*, REUTERS, Dec. 24, 2020.
[72] A&C Act, s. 34(2)(b)(ii).

property, including developmental and technological objectives.'[73] Apart from compulsory licensing, there may be other nuances of public policy concerns in intellectual property rights for a State. This may include matters relating to protection of consumers, public morality, traditional knowledge, local communities, traditional production rooted in their culture and customs, etc. Depending upon the facts and circumstances, such public policy challenges are foreseeable with respect to investment arbitral award dealing with IPRs rights.

4.3 Patent illegality and Arbitrability of IPRs Investment Claims

In case any ISDS award is challenged for setting aside under Part I, then the courts, apart from applying 34(2), can also take resort to 34(2A) as the qualifying phrase in the clause is '*…arbitral award arising out of arbitrations other than international commercial arbitration…'.* The position has already been explained in the previous chapter as to the conundrum formed due to positive reference to '*international commercial arbitration'* under the Convention and absence of '*international investment award.'* If Delhi High Court judgement is affirmed by the Supreme Court, then literal reading of section 34(2A) suggests that it will be applicable upon 'international investment awards' passed under Part I of the Act. Section 34(2A) stipulates the ground of '*patent illegality'* of an award which is interpreted in the *Saw Pipes*[74] case. The Supreme Court laid down that an award would suffer from patent illegality if it is contrary to the substantive provisions of law, or provisions of the Act, or terms of the contract. This ground posed an obvious fear that Indian courts could exercise their discretion to assess the merits of the arbitration matter.[75] Throughout many cases, a jurisprudence was developed where the court would hold patent illegality only where there is perverse application of law or error in face of law.[76]

Even though invocation of 34(2A) seems too far-fetched for an investment award right. However, in the current scenario, the Indian government is actively challenging the investment award on public policy grounds, and the Delhi High Court excluded investment arbitration from the purview of international commercial arbitrations (under the Phase-I BIT disputes).

[73] Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197 (1994), *preamble.*
[74] Oil & Natural Gas Corporation Ltd. v. Saw Pipes Ltd., AIR 2003 SC 2629.
[75] Law Commission of India, *Report No. 246: Amendments to the Arbitration and Conciliation Act, 1996,* Law Commission of India (Aug. 5, 2014).
[76] Associate Builders v. Delhi Development Authority, (2015) 3 SCC 49; Ssangyong Engineering and Construction Company Ltd. v. National Highways Authority of India, AIR 2019 SC 5041; Oil & Natural Gas Corporation Ltd. v. Western Geco International Ltd., AIR 2015 SC 363.

Hence, it is only practical to examine this provision.

V. Concluding Remarks

This paper examined the provisions relating to IPRs under the first and second generation of BITs. The first generation BIT provides asset-based definition of investment and expressly includes IPRs. The second generation improves this definition by modifying it to 'IPRs under TRIPS'. Another stark difference between the two generation treaties is that compulsory licensing regulatory measures are given as a carve out. Thus, strengthening India's regulatory policy space concerning compulsory licensing. Under an investment treaty, IPRs investments are offered substantive protections like equitable treatment, expropriation, etc. The consequence of such protection is that India may be subjected to awards under the ISDS process. With this backdrop, the paper analysed enforceability issues concerning IPRs related investment awards. *Firstly, the* Delhi High Court has expressly observed in two cases that such investment arbitrations (under Phase-I BITs) would not fall within the scope of 'commercial' arbitrations under the A&C Act. These cases have created a conundrum around the scope of 'commercial' arbitrations. If the rationales of the Delhi High Court are to be followed, then it can only be rectified by a legislative amendment, possibly amending and clarifying the commercial reservations under the Convention. *Secondly,* even if courts were to entertain enforceability of IPRs investment awards under the A&C Act, the same could be challenged under arbitrability, public policy or patent illegality grounds. Under a first generation treaty claim, the host state may not have compulsory licensing carve out but can argue the same under public policy grounds at the enforcement stage.

To sum up, there are some tenacious challenges awaiting enforcement of an IPRs investment award. So far, there has been no invocation of India's BITs for IPRs related investment claims. However, the actual enforcement challenges will only unfold once there is a real investment claim. This paper attempts to foresee such challenges along with their underlying rationales.