

(2016) 07 AP CK 0032

In the Andhra Pradesh High Court

Case No : Civil Revision Petition No. 1494 of 2016.

**M/s Impact Metals Ltd., Bollaram and another - Petitioners @HASH M/s
MSR India Ltd., Hyderabad and two Others**

Date of Decision : 21-07-2016

Acts Referred:

Arbitration and Conciliation Act, 1996 — Section 8
Specific Relief Act, 1963 — Section 38

Citation : (2017) AIR(Hyderabad) 12 : (2016) 6 ALT 263 : (2017) 2 AndhLD
266 : (2017) 1 ArbiLR 419

Hon'ble Judges : Sri. C.V. Nagarjuna Reddy and Sri. G. Shyam Prasad, JJ.

Bench : Division Bench

Advocate : Mr. Vedula Srinivas, Advocate, for the Petitioner; Mr. Ashok Ram
Kumar, Advocate, for the Respondent No. 1

Final Decision : Disposed Off

Judgement

Sri. C.V. Nagarjuna Reddy, J. - This Civil Revision Petition arises out of order, dated 20.01.2016, in I.A. No. 117 of 2015 in O.S. No. 227 of 2015 on the file of the XXV Additional Chief Judge, City Civil Court, Hyderabad.

2. We have heard Mr. Vedula Srinivas, learned counsel for the petitioners and Mr. Ashok Ram Kumar, learned counsel for respondent No.1.

3. Respondent No.1 filed the above-mentioned suit for the following substantive reliefs:

(a) to pass a decree for permanent injunction restraining the petitioners by themselves, its partners, its servants and agents, distributors, stockists, representatives, officers or persons claiming through or under it from either directly or indirectly using respondent No1's proprietary invented technology, designs, dies, trade secrets/Know-how and manufacturing processes by the petitioners;

(b) to award damages of a sum of Rs. 15 lakhs against the petitioners in favour of respondent No.1 and pass a decree of damages as valued for the purposes of

the suit and for loss of sales, reputation and good will of respondent No.1's trade marks caused by the activities of the petitioners;

(c) to pass an order directing the petitioners to deliver to respondent No.1 all infringing materials/printed material/dies, advertising materials, any reference to respondent No.1 product and/or original materials, papers, designs that are related to respondent No.1's invented product; and

(d) for costs."

4. On receipt of the summons, the petitioners filed I.A.No.117 of 2015 under Section-8 of the Arbitration and Conciliation Act, 1996 (for short "the Act") seeking stay of all further proceedings in the suit and the interlocutory applications, and to direct respondent No.1 to proceed under the Act. This application came to be dismissed by the lower Court by its order, dated 20.01.2016. Feeling aggrieved by the same, the defendants in the suit filed this Civil Revision Petition.

5. The only issue that fell for consideration before the lower Court was whether the disputes raised by the defendants in the suit are comprehended by the Manufacturing agreement between the parties or not.

6. The petitioners and the respondents entered into a Manufacturing agreement on 17.4.2016, under which, petitioner No.1 has undertaken to produce on behalf of respondent No.1 and supply to the latter about 5,000 copper bottles for domestic and export purposes.

7. Under Clause-1.3 of the Manufacturing agreement, respondent No.1 agreed to provide its specifications, trade secrets and any other designs, documentation, drawings, test information, data and information with respect to design and manufacture of the products by the petitioners.

8. Under Clause-14.1 thereof, respondent No.1 agreed to defend, indemnify and hold petitioner No.1 harmless from any third party claims, judgments, liabilities, expenses or costs, etc arising out of or relating to any claim that the manufacture, use or sale by petitioner No.1 of the products covered by the agreement infringe any copyright, patent trademark, service mark or any other proprietary right of any third party or misappropriates a trade secret of any third party except to the extent that such claims result from manufacturing processes developed by petitioner No.1 and used in the manufacture of product for respondent No.1.

9. Similar terms were incorporated under Clause-14.2 of the agreement in favour of respondent No.1.

10. Clauses-16.3 and 16.4 of the agreement, which are very pivotal for the present case, read as under:

"Petitioner No.1 ownership: All intellectual Property Rights in petitioner No.1 manufacturing processes used or developed by petitioner No.1 in connection with

the manufacture of the products for respondent No.1 shall be owned exclusively by petitioner No.1. The manufacture of the products for respondent No.1 covered by the agreement does not convey to respondent No.1 any rights or license, express or implied, or by estoppel or otherwise, under any such petitioner No.1's intellectual property rights. No license, express or implied, with regard to any trademark of petitioner No.1 or its affiliated companies is granted to respondent No.1 under this agreement. Petitioner No.1 expressly reserves all right, title and interest, including all intellectual property rights, in and to such manufacturing processes.

Respondent No. 1 ownership: All intellectual property rights in the facilities, know-how and the products shall be owned exclusively by respondent No.1 (or its licensors). Except as expressly set forth in the provisions title License Grant, the manufacture of the products by petitioner No.1 does not convey to petitioner No.1 or its affiliates any rights or license, express or implied, or by estoppel or otherwise, under any such respondent No.1 intellectual property rights. No license, express or implied, with regard to any trademark of respondent No.1 is granted to petitioner No.1 or its affiliates under this agreement. Respondent No.1 expressly reserves all right, title and interest, including all intellectual property rights, in and to such Licensed Know-How, facilities and products."

Clause-29 of the agreement pertains to dispute resolution, which reads as under:

"Any claim, controversy or dispute arising out of or in connection with this agreement, not settled by mutual agreement of the parties involved, within 30 days after a party is provided written notice for settlement thereof, shall be referred to an arbitration to a sole arbitrator jointly appointed by the parties in accordance with the provisions of the Indian Arbitration and Conciliation Act, 1996. In the event, the parties are unable to agree upon a sole arbitrator, the claim controversy or dispute shall be referred to a panel of three arbitrators, one of them shall be appointed by respondent No.1 and the other by petitioner No.1 and the third arbitrator by the aforesaid two arbitrators. The said arbitration shall be conducted in accordance with the Arbitration and Conciliation Act, 1996. The venue of the arbitration shall be Hyderabad. The Arbitration proceedings shall be conducted in English."

In the plaint, the following are the averments relevant in the present context of the case:

"It is humbly submitted that defendants having executed the manufacturing agreement, dated 17.4.2014, which contains the confidentiality clauses did not abide by the same and with a view to steal the invention of this plaintiff have gone ahead and filed Patent Application No.3352/CHE/2014 on 07.7.2014 at 6.13 pm. The filing of Patent Application not only amounts to breach of the contract but also amounts to theft of intellectual property and misappropriation of trade secrets which otherwise as per the agreement entered by them on 17.4.2014 should be restricted only to manufacture the product for the plaintiff. The said

patent application was published by the Indian Patent Office on 01.8.2014 making the invention/trade secret public creating huge losses for the plaintiff.

11. It is humbly submitted that the defendants not only copied the invention of the plaintiff but have also copied the drawings and designs and other literary material provided to them under the said Manufacturing Agreement. It is submitted that these documents have been filed by the defendants with the Controller of patents giving an impression that they are the authors for the same, while the plaintiff are the original author and owner of the materials. These acts of the defendants amounts to theft of intellectual property and misappropriation of trade secrets of the plaintiff as well as the infringement of copyright vested with the plaintiff under Section-51 of the Copy Right Act, 1957 as amended by the Copy right Amendment Act, 2013 and other provisions therein.

12. The plaintiff submits that the acts of the defendants constitute misappropriation of the trade secrets since it is specifically mentioned under clause-1.3 of the said Manufacturing Agreement as follows:

13. Know-How: MSR's specifications, trade secrets and any other designs, documentation, drawings, test information, data and information with respect to design and manufacture of the products which is proprietary to MSR and provide to the IML for manufacture of the products.

14. The plaintiff would also like to draw the attention of this Hon'ble Court the specific provision of clause-15 of the Manufacturing Agreement which specifically lays down that the receiving party shall use the disclosing party's confidential information for the purposes of providing and receiving products and services to and from the disclosing party. It is submitted that there has been complete breach of this specific clause and the defendants are aware that the invented technology belongs to plaintiff. It is also submitted that the infringement also constitute criminal offences under law.

15. It is submitted that the acts of the defendants thus constitute absolute misappropriation of the Trade secrets as well as breach of the Manufacturing contract dated 17.4.2014 which is actionable under law in view of the foregoing submission of facts, the valid cause of action being theft and misappropriation of intellectual rights, trade secrets by the defendants stand established on the following grounds:-

(a) A wilful, mala fide and illegal misrepresentation before the Controller of patent that the invention is that the defendant by filing the patent application bearing No.3352/CHE/2014 (Document Enclosed.)

(b) A wilful manufacture of the similar products by using the dies, design and invented technology of the plaintiff by the defendants with a sole intention of committing commercial dishonestly and making illegal profits.

(c) Seeking for publication of patent by filing an early publication request under

Form-9 giving an impression to general public that the defendant is the inventor.

(d) Causation of actual and irreparable injury and loss to the good will, reputation and business interest of the plaintiffs by selling counterfeit products using the design, die and invented technology of the plaintiff."

Cause of action: The cause of action for the instant suit arose on 17.4.2014 when the plaintiffs and defendants have entered into the Manufacturing Agreement and defendants were provided with the technical know-how designs, die and invented processes of plaintiff. The cause of action further arose on defendant breaching of the Manufacturing Agreement by using the technical know-how, designs, die and invented processes for his own manufacture in the last week of March 2015 and the cause of action also arose on defendants filing Patent Arbitration on 07.7.2014 for obtaining patent on plaintiff's invented processes and product under the title "Seamless Copper Container and a Method for Manufacturing thereof".

The cause of action is a continuous one and continues to submit till such time as the defendants cease to use the technical knowhow designs, die and invented processes of the products, and are, vide injunction order restrained from doing so by the Hon"ble Court."

16. As could be noticed from Clause-29 of the agreement, extracted herein before, the same is widely worded, as per which, any claim, controversy or dispute arising out of or in connection with the agreement, not settled by mutual agreement of the parties within 30 days, shall be referred to arbitration to a sole arbitrator.

17. We have made an extensive reproduction of various averments in the plaint, which, undoubtedly, disclose that the entire dispute raised by respondent No.1 arises out of and in connection with the Manufacturing agreement.

18. Though Mr. Ashok Ram Kumar, learned counsel for respondent No.1, submitted that some of the aspects do not arise under the agreement, he failed to substantiate the same. On the contrary, respondent No.1 pleaded in the plaint that though the products are proprietary to respondent No.1 and provided to petitioner No.1 for their manufacture, the petitioners did not abide by Clause-1.3 of the agreement and with a view to steal the invention of respondent No.1, they have gone ahead and filed Patent Application on 07.7.2014 at 6.13 pm. It was specifically averred that the filing of Patent Application not only amounted to breach of the contract but also the theft of intellectual property and misappropriation of trade secrets, which otherwise, as per agreement entered by them on 17.04.2014, should be restricted only to manufacture of the product of the plaintiff (See para-18 of the plaint). It is thus beyond any pale of doubt that the entire dispute raised by respondent No.1 before the civil Court in O.S. No. 227 of 2015 is fully and completely comprehended by the agreement between the parties and consequently, embraced by Clause-29 thereof, which provides for resolution of the disputes initially, through settlement by mutual agreement of

the parties involved and, failing which, through arbitration.

19. A perusal of the order of the lower Court would reveal that it has completely failed to comprehend the true scope and ambit of the Manufacturing agreement qua the dispute raised by respondent No.1.

20. The reasoning of the lower Court, that as respondent No.1 is seeking the relief of permanent injunction, such a dispute is not amenable for arbitration and falls outside the terms and conditions of the Manufacturing agreement between the parties is wholly unsustainable.

21. The Supreme Court in *Booz Allen and Hamilton Inc. v. SBI Home Finance Ltd*, (2011) 5 SCC 532 has succinctly dealt with the issue of arbitrability. It has held that the term "arbitrability" consists of three facets, which are as under:

(i) Whether the disputes are capable of adjudication and settlement by arbitration?

(ii) Whether the disputes are covered by the arbitration agreement?

(iii) Whether the parties have referred the disputes to arbitration?

22. Under facet-(i), the question whether the disputes, having regard to their nature, could be resolved by a private forum chosen by the parties (the Arbitral Tribunal) or whether they would exclusively fall within the domain of public fora (Courts) is included.

23. As regards facet-(ii), the Supreme Court observed that it relates to the question whether the disputes are enumerated or described in the arbitration agreement as matters to be decided by arbitration or whether the disputes fall under the "excepted matters" excluded from the purview of the arbitration agreement.

24. Since facet-(iii) has no application to the present case, it is not necessary for us to refer to the same.

25. As regards facet-(i), the Supreme Court has indicated the well recognised examples of non-arbitrable disputes, which read are as under:

(i) disputes relating to rights and liabilities which give rise to or arise out of criminal offences;

(ii) matrimonial disputes relating to divorce, judicial separation, restitution of conjugal rights, child custody;

(iii) guardianship matters;

(iv) insolvency and winding-up matters;

(v) testamentary matters (grant of probates, letters of administration and succession certificate); and

(vi) eviction or tenancy matters governed by special statutes where the tenant enjoys statutory protection against eviction and only the specified courts are conferred jurisdiction to grant eviction or decide the disputes."

26. Mr. Ashok Ram Kumar, learned counsel for respondent No.1, has relied upon Sub-section-(3) of Section-2 of the Act and submitted that since Section-62 of the Copy Right Act, 1957 conferred jurisdiction on the District Court having jurisdiction over the dispute pertaining to infringement of copy right in any work or infringement of any right conferred by that Act, the disputes raised by respondent No.1 in the present suit are deemed to have been excluded by the provisions of Subsection-(3) of Section-3 of the Act.

27. We are afraid, we cannot accept this submission. Sub-section-(3) of Section-2 of the Act reads as under:

"This Part shall not affect any other law for the time being in force by virtue of which certain disputes may not be submitted to arbitration."

28. In para-35 of its judgment in *Booz Allen & Hamilton Inc.(Supra)*, the Supreme Court held that every civil or commercial dispute, either contractual or non-contractual, which can be decided by a Court, is in principle capable of being adjudicated and resolved by arbitration unless the jurisdiction of the Arbitral Tribunals is excluded either expressly or by necessary implication.

29. The Supreme Court further held that adjudication of certain categories of proceedings are reserved by the legislature exclusively for public fora as a matter of public policy and certain other categories of cases, though not expressly reserved for adjudication by public fora (Courts and Tribunals), may by necessary implication stand excluded from the purview of private fora. It was further held that consequently, where the cause/dispute is inarbitrable, the Court where a suit is pending, will refuse to refer the parties to arbitration, under Section-8 of the Act, even if the parties might have agreed upon arbitration as the forum for settlement of such disputes.

30. No provision of the Copy Right Act is brought to our notice by which adjudication of the disputes arising therein by an arbitrator is barred either expressly or by implication.

31. If we understand the provisions of Section-62 of the Copy Right Act and also Sub-section-(3) of Section-2 of the Arbitration Act in the light of the judgment of the Supreme Court in *Booz Allen & Hamilton Inc (supra)*, while there is no express bar under the Copy Right Act, it requires to be seen whether the dispute raised by respondent No.1 falls within the well recognised exceptions of non-arbitral disputes referred by the Supreme Court in para-36 of the judgment, which were referred to herein before.

32. Though the categories of cases referred by the Supreme Court in *Booz Allen & Hamilton Inc. (supra)* may be understood as illustrative, the fact, however, remains that the disputes under the Copy Right Act are not included in the

category of non-arbitrable disputes.

33. The Supreme Court has recognised those categories of cases as relating to actions in rem as contrasted from a right in personam and that, all such cases which fall in the former category have to be necessarily decided by the public fora i.e., Courts and Tribunals.

34. Though the learned counsel for respondent No.1 has submitted that the Copy Right is a right in rem, he failed to support his submission by placing before us any judgment in this regard.

35. In *M/s. Sundaram Finance Limited v. T. Thankam*, 2015 (2) Arb. L.R. 1 (SC), the Supreme Court held that once an application in due compliance of Section-8 of the Act is filed, the approach of the civil Court should be not to see whether the Court has jurisdiction and it should be to see whether the jurisdiction has been ousted.

36. Having considered the facts of the case and the legal position, as discussed above, we have no hesitation to hold that the entire dispute raised by respondent No.1 in the suit before the lower Court is an arbitrable dispute within the meaning of Clause-29 of the Manufacturing Agreement between the parties and therefore, the suit was not maintainable.

37. The lower Court fell into a serious error in dismissing the application filed by the petitioners for reference of the dispute for arbitration under Section-8 of the Act.

38. Accordingly, the Civil Revision Petition is allowed and the order under revision is set aside. I.A. No.117 of 2015 in O.S. No. 227 of 2015 on the file of the XXV Additional Chief Judge, City Civil Court, Hyderabad is allowed as prayed for.

39. As a sequel to disposal of the Civil Revision Petition, CRPMP. No.1890 of 2016 filed by the petitioners for interim relief shall stand disposed of as infructuous.