



Pre-Institution Mediation Under the Indian Commercial Courts Act: A Strategic Advantage



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In disputes where a patentee is not seeking a preliminary injunction and wants to use litigation as a tool to negotiate terms for granting limited rights to their IP, pre-initiation mediation is a viable option.

A 2018 amendment to the Indian Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015 (“Commercial Courts Act”) makes it mandatory for a party to exhaust the remedy of mediation before initiating court proceedings under the Commercial Courts Act, with the limited exception of cases where urgent relief is being sought.

Patent infringement disputes, being disputes of a commercial nature, are governed by the Commercial Courts Act and, therefore, the mandatory pre-institution mediation provision applies to such disputes. The time bound mediation procedure envisaged in this provision allows a patentee to not only bring a possible infringer to the



negotiation table under the threat of future litigation but also allow patentees to resolve disputes in a timely manner by avoiding long-drawn litigation in Indian courts. Patentees can now consider a different strategy when considering steps for enforcement of patent rights in India in view of the possible advantages of such mediation proceedings discussed in this article.

The Commercial Courts Act: Scope and Objectives

The Commercial Courts Act was introduced in 2015 to establish commercial courts in India for adjudication of “Commercial Disputes”. The statute lays down a streamlined procedure for quick resolution of high stake disputes of a commercial nature with strict timelines for filing of pleadings, discovery and procedure for grant of summary judgments. The definition of “Commercial Disputes” under the Act is broad and generally covers commercial transactions and includes disputes arising out of intellectual property rights. In 2018, the Act was amended to bring in some clarity of procedure and also to introduce the mandatory pre-institution mediation provision. After the amendments in 2018, any Commercial Dispute valued at more than INR 3,00,000 (about USD 4,338) is governed by the provisions of the Act.

Pre-Institution Mediation Defined

Section 12A of the Commercial Courts Act provides parties with an alternative means to resolve disputes through discussions and negotiations with the help of a mediator. The provision states that a plaintiff must initiate mediation before filing a suit, with a limited carve out for suits filed with applications for urgent interim relief.

Courts in India frequently refer ongoing patent infringement suits to mediation when there exists a possibility for the parties to arrive at a settlement. However, in the absence of a law imposing a time limit for completion of such court-referred mediations, in many cases, mediations of patent infringement suits go on for months with no resolution. Mediation under the Commercial Courts Act bridges this gap by making mediation a time-bound process. In India, most IP infringement suits are filed with an application seeking a preliminary injunction. This would qualify as “urgent interim relief” under Section 12A and initiation of mediation prior to filing of the suit would not be mandatory. However, in disputes where a patentee is not seeking a preliminary injunction and wants to use litigation as a tool to negotiate terms for granting limited rights to their IP, pre-initiation mediation is a viable option.

Procedure for Initiating Pre-Institution Mediation

The procedure to be followed in such mediation proceedings is set out in the Commercial Courts (Pre-Institution Mediation and Settlement) Rules, 2018 (“Rules”). As per the Rules, the plaintiff must file an application with the State Legal Services Authority or the District Legal Services Authority constituted under the Legal Services Authorities Act, 1987 (“Authority”) to initiate mediation. Once an application is received, the Authority will issue notice to the opposing party to appear within 10 days of receipt of notice and give consent to participate in the mediation proceedings. The Rules provide for issuance of a final notice if the Authority does not receive a response within 10 days of the initial notice. If the opposing party fails to appear following the final notice or refuses to participate in the mediation proceedings, the Authority will treat the mediation process as a non-starter and prepare a report to that effect. If the opposing party agrees to participate, then the mediation process begins. Following negotiations and meetings with the mediator, if the parties arrive at a settlement, it will be recorded in a settlement agreement.

The Pros

Instituting pre-initiation mediation holds many advantages over out-of-court inter-party negotiations:

1. **Time and cost-effective.** Pre-institution mediation initiated under the Commercial Courts Act must be completed within a period of three months from the date of application made by the plaintiff, with a possible extension of two months with the consent of the parties. The time bound process saves time and costs incurred by the parties involved. A recent example of effective use of this mechanism is the mediation instituted by Nokia to negotiate licenses for its standard-essential patents relating to technology used in handsets. The mediation procedure was reportedly completed within a time span of 8 months and Nokia was able to resolve the dispute without filing a suit.
2. Patent litigations in India are known to be lengthy. According to one report from 2017, a total of 143 patent infringement suits were filed between 2005 and 2015 in the Delhi High Court, Bombay High Court, Madras High Court and Calcutta High Court out of which judgments were delivered in only five cases after completion of trial proceedings. Exploring the possibility of a settlement before filing a suit could avoid such lengthy litigation.
3. **Confidentiality.** Confidentiality of negotiations with a potential licensee is key to prevent disclosure of important business strategies to competitors. The Rules ensure confidentiality by providing that the mediator, the parties, and their counsels must maintain confidentiality about the mediation. Stenographic or audio or video recording of the mediation proceedings is prohibited under the Rules.

4. **No threat of a validity challenge.** A patentee must always assess the strength of their patent before filing a suit since a defendant can challenge the validity of a patent. Even at the interim stage, a defendant can avoid an injunction being granted against them by raising a credible challenge to the validity of a patent. When the patent is susceptible to a challenge, pre-initiation mediation can be a good choice to negotiate a license without the threat of a validity challenge.
5. **Assessing the strength of the opponent's case.** Through negotiations in a mediation proceeding, a patentee can get a sense of the opponent's strengths and weaknesses and prepare for the possibility of contesting a suit. The opponent might reveal that their product is covered by another patent or is based on technology available in the public domain. The patentee then has time to assess the likelihood of its success in a suit. There is no bar on seeking interim relief if a suit is filed in the event of a failure of mediation proceedings. Depending on the patentee's assessment of its case, a patentee may still seek an interim injunction even after trying mediation.
6. **Negotiating in good faith.** Licensee negotiations between parties can often go on for months. During this time, a potential licensee may at times engage in infringing acts. The threat of possible litigation that could result due to an unsuccessful mediation under the Commercial Courts Act would possibly motivate a potential infringer/ licensee to negotiate license terms in good faith. The Rules also provide that parties shall participate in the mediation process in good faith with an intention to settle the dispute.

The Cons

Section 12A imposes a mandatory obligation upon the plaintiff to initiate mediation. However, the Rules give the opposing party the right to refuse to participate in the mediation proceedings. If the opposing party does not appear, it will also result in the mediation proceedings being deemed a non-starter. This optional approach arguably results in the provision lacking teeth.

The Way Forward

With the option of time-bound pre-institution mediation, it is now possible for patentees to target infringers in India and prevent infringement without spending years in litigation. Weighing the pros and cons of the situation, patent holders can decide to press for immediate relief in a suit or settle the matter using pre-institution mediation.

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