

IN THE HON'BLE SUPREME COURT OF INDIA

AT NEW DELHI

Appeals Filed Under *Article 136* of the Constitution of India

Appeal No. 1/2014

Foreign Lenders _____ Appellants

v.

Lifeline Ltd. _____ Respondents

CLUBBED WITH:

Appeal No. 2/2014

Lifeline Ltd. _____ Appellants

v.

Promoters of Jeevani Ltd. _____ Respondents

CLUBBED WITH:

Appeal No. 3/2014

Swasth Ltd. _____ Appellants

v.

Competition Commission of India _____ Respondent No. 1

Lifeline Ltd. _____ Respondent No. 2

Memorial Submitted to the Hon'ble Chief Justice

and His Companion Judges

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Statement of Jurisdiction

The appellants humbly submit that this memorandum for three appeals filed before this Honourable Court and, clubbed by this Honourable Court. All the three appeals are filed under Article 136 of the Constitution of India. It sets forth the facts and the laws on which the claims are based.

Article 136 of the Constitution of India States that:-

Special leave to appeal by the Supreme Court

(1) Notwithstanding anything in this Chapter, the Supreme Court may, in its discretion, grant special leave to appeal from any judgment, decree, determination, sentence or order in any cause or matter passed or made by any court or tribunal in the territory of India

(2) Nothing in clause (1) shall apply to any judgment, determination, sentence or order passed or made by any court or tribunal constituted by or under any law relating to the Armed Forces.

Statement of Facts

- ❖ Jeevani Limited (“**Jeevani**”) is a listed public company with its registered office in New Delhi. It is one of the leading market players in pharmaceutical manufacturing industry, with a global market share also.
- ❖ Lifeline Limited (“**Lifeline**”) is a listed public company with its registered office in Mumbai. Lifeline is a major producer of food products in India. Lifeline decided to foray in the pharmaceutical sector.
- ❖ “**Scheme**” – Lifeline approached Jeevani for a possible partnership to venture into this sector and on 27th January 2012, both companies decided to merge. And it was decided that Jeevani would completely merge into Lifeline and all the assets and liabilities of Jeevani would be transferred to Lifeline, including the active R&D and IPRs of Jeevani.
- ❖ Scheme finalized on 5th March 2012. Bombay Stock Exchange did not provide its approval. On 30th March 2012, the companies approached the Hon’ble Delhi High Court, under section 391 of the Companies Act, 1956. Order passed for convening creditor’s meeting.
- ❖ Advertisement for notice of meeting given in an English newspaper and a local language newspaper. Meeting held, and scheme was approved by 3/4th majority. So Delhi High Court approved the scheme on 5th July 2013 and meanwhile Bombay High Court also approved the scheme as Lifeline approached the Hon’ble court.
- ❖ Certain creditors of Jeevani, mainly foreign banks (**Foreign Lenders**) invoked arbitration proceedings against Jeevani, in Hong Kong. On 27th July 2010, foreign arbitral award passed in favour of foreign lenders and directed Jeevani to pay the foreign lenders the amount stated in arbitral award. Till date no proceedings for enforcement of this foreign award is filed by foreign lenders.

Case No. 1

Foreign Lenders v. Lifeline Ltd.

Foreign Lenders contended that,

- They did not receive the notice of meeting of creditors; therefore they were not able to attend the meeting.
- They constitute to a separate class of creditors. And therefore, the Scheme should be set aside.

Lifeline contended that,

- Foreign lenders are not creditors of the company and no notice required to be sent.
- Foreign lenders do not belong to a separate class of creditors.

The Hon'ble Company Judge, dismissed the application filed by the foreign lenders and refused to set aside the scheme. The appeal to the division bench of Hon'ble Delhi High Court was also dismissed. Therefore appeal made to the Hon'ble Supreme Court.

Case No. 2

Lifeline Limited v. Promoters of Jeevani Ltd

On receiving notices from the US Food and Drug Administration (“FDA”), Lifeline discovered the breach of contract of 23rd March 2013, by the Promoters of Jeevani and filed a suit in Delhi High Court for the claim of damages. Issue arose on the jurisdiction of the court. Lifeline contended that the agreement clause is not an arbitration clause and the Hon'ble Delhi High Court has the jurisdiction to accept the petition. Promoters who were contending that the clause in the agreement is an arbitration clause and therefore the hon'ble court does not hold any jurisdiction, aggrieved by the order of the learned single judge made an appeal. The hon'ble

Division Bench, held the clause to be an arbitration clause. Now, Lifeline has made an appeal to the Hon'ble Supreme Court.

Case No. 3

Swasth v. CCI & ors.

Lifeline decided to launch a new life saving drug, "Novel". This drug was manufactured after further developing the active R&D which now is the property of Lifeline, according to the scheme. **Swasth**, sister concern of Jeevani, claimed absolute rights over certain IPRs of Jeevani and got an interim injunction over Lifeline, claiming infringement of IPRs. And further launched a similar drug, captured the market and withdrew the injunction. Lifeline filed case with CCI for abuse of dominant position and ordered DG to investigate. Aggrieved by this decision Swasth filed writ to Delhi High Court which was rejected and an appeal to the Division Bench of Delhi High Court which was also rejected. Hence appeal to Supreme Court.

The Hon'ble Supreme Court exercising its inherent powers has now tagged the matters together for hearing.

Hence in the Present Appeal.

Summary of Issues

1. Whether the foreign lenders have the locus standi?
2. Whether the respondents have followed the provisions of section 391 of the Companies Act 1956?
3. Whether the clause 2.1 of the *agreement* is an arbitration clause?
4. Whether the appeal to Supreme Court under article 136 is maintainable?

Summary of Pleadings

1. The Appellants have the locus standi.

The appellants humbly submit that the appellants have the locus standi to file the case.

Firstly, the appellants are the Foreign Banks (Herein referred as *Foreign Lenders*) are the creditors of Jeevani Ltd. (Now *Lifeline Ltd.*). As the appellants have a pecuniary claim can be considered as creditors.

Secondly, the appellants are a separate class of creditors. As they a separate interest, so all those who same interest would constitute a separate class. Further they are secured creditors of the company.

2. The provisions of section 391 of The Companies Act, 1956 are not followed.

The appellants respectfully submit that the provisions of section 391 of The Companies Act 1956 are not fulfilled.

Firstly, as the appellants are the creditors of the company, the notice should have been sent to them. The rule laid down in section 391(1) is not followed. If the notice to the creditors is not given, the scheme cannot be approved.

Secondly, there was no three-fourth majority to approve the scheme in the meeting. When certain creditors are not given the notice, the members present at the meeting who consent to the scheme wouldn't constitute three-fourth majority.

Thirdly, the conduct of the respondents is questioned as with malafide intention the notice was not to the foreign lenders, and the respondents despite knowing the fact the appellants are the creditors, contested the appellants are not the creditors.

3. **The clause 2.1 of the agreement is not an arbitration clause.**

The appellants humbly submit that the clause 2.1 is not arbitration clause.

Firstly, the essentials of the arbitration agreement are not fulfilled. The main clause ad-idem is not fulfilled. There is no meeting of minds.

Secondly, the wordings in the clause are unclear. The wording of clause 2.1 neither impliedly nor expressly states that the clause is an arbitration clause

Thirdly, the committee formed wouldn't be considered as arbitrators. It's not necessary the committee formed would constitute as arbitrators.

4. **The appeal to the Supreme Court under article 136 is maintainable**

The appellants respectfully submit that the appeal to the Supreme Court is maintainable.

Firstly, the Supreme Court has the discretionary power to entertain appeals under article 136. The appeal is entertained only, when there is miscarriage of justice or there are special circumstances. The order passed by the CCI causes injustice to the appellants.

Secondly, the order passed by the CCI was bad in law. As the injunction filed by the appellants was to save the IPRs. And it was removed for a healthy competition.

Pleadings and Authorities

1. Whether the foreign lenders have the locus standi?

1.1 That the appellants are the creditors

The Appellants humbly submit that the Foreign Banks (herein referred as *Foreign Lenders*) are the creditors of Jeevani Limited (Now *Lifeline*).¹

The expression *creditor here includes* every person having a pecuniary claim, whether actual or contingent, against the company.² A person to whom the company would owe a balance amount after set-off would be in category of a *creditor*.³ The foreign lenders stand a claim for the payments made under a consortium agreement providing financial assistance to the respondent, entered into between the appellants and the respondent.⁴

1.2 That the Appellants are a separate class of creditors

It is always a moot question to what constitutes a class.⁵ The creditors comprising the different classes must have different interest. *Class* must be confined to those persons

¹ Factsheet at ¶ 6

² HALSBURY'S LAWS OF ENGLAND, 4TH Edn., Vol 7, para 1530, page 848

³ Chunilal v. Bank of Upper India (1917) 40 IC 904

⁴ Factsheet at ¶ 6

⁵ Maneckchowk & Ahmedabad Mfg. Co. Ltd., Re, (1970) 40 Com Cases 819 (Guj)

whose rights are not so dissimilar as to make it impossible for them to consult together with a view to their common interest.⁶

Speaking very generally, in order to constitute a class, members belonging to the class must form a homogenous group with commonality of interest.⁷

If creditors and members are not properly classified and if the meeting of proper creditors is not separately held, the Scheme approved at such meeting cannot be sanctioned.⁸

Creditors can be divided into three categories of preferential creditors, secured creditors and unsecured creditors.⁹

The definition of *Secured Creditors* means any bank or financial institution or any consortium or group of banks or financial institutions.¹⁰ Hence the foreign lenders fall under the ambit of *secured creditors*.

Therefore, the appellants have an established Locus Standi, presenting the appeal.

⁶ BUCKLEY ON THE COMPANIES ACT, 13TH Edn., page 406

⁷ Sovereign Life Assurance Co. v. Dodd, (1892) 2 QB 573 (CA)

⁸ Court Practice Note (1934) WN 142

⁹ Palmers Company Law, 21ST Edn., page 700

¹⁰ Section 2(1)(zd) ,The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

2. WHETHER THE RESPONDENTS HAVE FOLLOWED THE PROVISIONS OF SEC. 391 OF THE COMPANIES ACT, 1956?

2.1 That the notice should have been sent to the appellants

The appellants are the creditors of the company. The appellants are a separate class of creditors. Hence a notice ought to be send. In accordance to The Companies Act 1956, Section 391(1) the notice of the meeting must be given to-

- (a) the members or any class of members
- (b) The creditors or any class of creditors.

If creditors and members are not properly classified and if the meeting of the proper creditors and members are not separately held, the scheme approved at such meeting cannot be sanctioned.¹¹

If notice is not given to every person entitled to notice any resolution powers at the meeting would have no effect.¹²

The board of directors should in fact approve the scheme only after it has been cleared by the financial institutions/ banks which have granted loans to the company or the debenture trustees to avoid any major change in the meeting of the creditors to be convened at the instance of the company courts under section 391 of The Companies Act 1956.¹³

So therefore, it should have been obligatory for the company to consult these foreign banks or the foreign lenders even before proceeding towards the meeting of the creditors.

¹¹ Swamy (DA) v. India Meters Ltd., (1994) 79 Comp Cas 27 (Mad)

¹² Young v. Ladies Imperial Club Ltd., (1920) 2 KB 523

¹³ Corporate Mergers, Amalgamations and Takeovers, Bharat's, 5th Edn, Page 432

Where a scheme of arrangement is proposed, the notice of the scheme should go to all creditors wherever they may be to enable them to participate in the scheme.¹⁴

2.2 That the Three-fourth majority of the creditors not in accordance with the law

Where a large number of the creditors have not been given the notice of the meeting, the scheme cannot be considered to have been passed by a three-fourths majority. It is only after the various formalities have been complied with and all the creditors have been given notices of the meeting, can it be determined whether the three-fourth of them have supported the scheme and, thereafter the court can consider whether the scheme should be sanctioned.¹⁵

In the case of Re, Kaveri Entertainment Ltd, the creditors who were to be given the notices did constitute 75% of the value of credit but did not constitute majority in number. The hon'ble Supreme Court held that the company had neither held a meeting of the creditors nor given the notice to the majority in number of creditors. Majority of the creditors were, thus, kept in dark of the proposed scheme of the arrangement. That was not in consonance with the object of section 391(2) which ordinarily requires approval by majority in number of the creditors representing more than 3/4th in value of the credit.¹⁶

2.3 That the conduct of the company, questioned

When a large percentage of creditors were not given notice of the meeting with a mala fide intention and by their exclusion the meeting was held, if such creditors were to

¹⁴ Indian Crescent Bank Ltd, in Re, (1949) ILR Cal 53: 53 CWN 183

¹⁵ Re, Auto Steering India P. Ltd, (1977) 47 Comp Cas 257 (Del)

¹⁶ (2003) 45 SCL 294 (Bom)

appear before the Court and request the court to take note of the conduct of the company, the Court would decline to grant the sanction to the scheme not on the ground that the meeting was conducted without the issue of notice to those creditors is invalid but on the ground that the Court is not satisfied about the *conduct of the company* as well as the *fairness of the scheme*.¹⁷

It is therefore contended that the scheme so granted to the respondent is not in consonance with the law and there is a question raised upon the conduct of the company and the fairness of the scheme.

¹⁷ Vikrant Tyres Ltd., Re (2003) 47 SCL 613 (Kar)

3. WHETHER THE CLAUSE 2.1 OF THE AGREEMENT IS AN ARBITRATION CLAUSE?

3.1 That the essentials of the Arbitration Agreement are not fulfilled.

The appellants humbly submit that the essentials of a valid arbitration clause are not fulfilled.

The essentials of the arbitration agreement are as follows:-

1. There must be a present or future difference in connection with some contemplated affairs.¹⁸
2. There must be the intention of the parties to settle such differences by a private tribunal.¹⁹
3. The parties must agree in writing to be bound by the decision of such tribunal.²⁰
4. The parties must be ad idem.²¹

According to the essentials of the Arbitration Agreement there should be meetings of the mind (ad idem). In the current case the Appellants and Respondent never had ad idem. In the current case the appellants never took clause 2.1 of the *agreement* as an arbitration clause.²²

Clause 2.2 states that *the parties should endeavour to amicably resolve the above mentioned issues*. This clause doesn't mean that it is an arbitration clause.

In "Arbitration Agreement" by which the parties agree to submit future or present disputes to arbitration for settlement. Provisions for amicably settlement through an association will not be

¹⁸ K.K Modi v. K N Modi AIR 1998 SC 1297

¹⁹ Ibid

²⁰ Bihar State Mineral Dev. Corp. v. Encon Builders (I) Pvt. Ltd., (2003) 7 SCC 418

²¹ Ibid

²² Factsheet at ¶ 10

an arbitration agreement.²³ Where the parties are not ad-idem about the dispute to be decided by the arbitrators then there is no arbitration agreement.²⁴ In the case of State Of Orissa & Ors vs Bhagyadhar Dash²⁵ this Court held that the said clauses did not amount to arbitration agreement on the following reasoning: “In the present case, reading Clauses 23 and 24 together, it is quite clear that in respect of questions arising from or relating to any claim or right, matter or thing in any way connected with the contract, while the decision of the Executive Engineer is made final and binding in respect of certain types of claims or questions, the decision of the Managing Director is made final and binding in respect of the remaining claims. Both the Executive Engineer as well as the Managing Director are expected to determine the question or claim on the basis of their own investigations and material. Neither of the clauses contemplates a full-fledged arbitration covered by the Arbitration Act”. In the current case the decision of the three executives of the company would be binding according to clause 2.1²⁶ but this would not amount to arbitration held by the above case. Where the clause relating to settlement of disputes, contains words which specifically excludes any of the attributes of an arbitration agreement or contains anything that detracts from an arbitration agreement, it will not be an arbitration agreement.²⁷ No arbitration clause emerged by consensus ad idem. Therefore, there is no arbitration agreement for reference of the dispute for arbitration²⁸

²³ Rajdhani Paper house v. R.K. Jain Sales 1986 (2) Arb LR 54 (DB-DEL)

²⁴ Sheodutt v. Pandit Vishnu Dutta AIR 1955 Nag 116

²⁵ (2011) 7 SCC 406

²⁶ Factsheet at ¶ 9

²⁷ Jagdish Chander v. Ramesh Chander (2007) 5 SCC 719

²⁸ M/S. Fair Air Engineers Pvt. Ltd. v. N.K. Modi AIR 1997 SC 533

3.2 That the clause 2.1 is unclear.

The clause 2.1 of the *agreement* is unclear as there is no mention of arbitration nor there is an implied form of arbitration. To be valid, the terms of an arbitration agreement must be clear. An arbitration agreement is void if its terms are unclear or there is no direct reference to arbitration.²⁹

3.3 That the committee in clause 2.1 of the agreement doesn't mean that the clause is an arbitration clause.

The committee formed for dispute resolution doesn't mean that they are formed for arbitration. A clause in a contract inter-alia provides that 'executive committee should constitutes an arbitration committee' without stipulating other ingredients of arbitration like its ad idem etc. Held that basic concept of arbitration is that parties repose trust and faith in a person or committee chosen to be the arbitrator and agree to accept its decision. As these essential ingredients of an arbitration agreement are missing, the clause cannot be said to be an arbitration agreement within the meaning of the act.³⁰ Hence the empowered committee does constitute as arbitrators. Various courts provided that even if the decision of executive level is binding it won't amount to arbitration clause. When the executive engineer's decision was final and binding, the clause was not an arbitration clause.³¹ When a clause in a contract provided that the decision of the Estate Officer shall be final, conclusive and binding, it would not contemplate arbitration clause.³² The empowered committee of executive personnel wont termed as arbitrators they would be termed as expert determination. In the

²⁹ RUSSELS ON ARBITRATION 21ST Edn., page 27

³⁰ Sharika Peeth Sanstha v. Bansilal Raina 2005 (1) Arb LR 125

³¹ District panchyat Bhavnagar v. Mohamad Haji Gafur AIR 1984 Guj 98

³² Registrar, University of Agricultural Science v. G.G. Hosamath (2004)13 SCC 542

case of *Bharat Bhusan Bansal v. U.P. Small Scale Industries Corp. Ltd*³³ where the stipulation in the contract was "...the decision of the Managing Director of U.P.S.I.C shall be final, conclusive and binding on both the parties to the contract upon all questions relating to any claim, right or matter or thing in any way arising out of or relating to contract...." It was held that the stipulation was more in nature of the Managing Director being an expert for deciding matters pertaining to the contract and the intention of the parties was to avoid disputes rather than to decide formulated disputes in quasi-judicial manner.³⁴

Thus unless a clause specifically provides that disputes should be referred to arbitration, the clause cannot be said to be an arbitration clause.³⁵

³³ AIR 1995 SC 899

³⁴ AIR 1999 SC 899

³⁵ *R.N. Pattiwar v. State of Maharashtra*, 1998 (2) Arb LR 332 (Bom)

4. Whether the appeal to Supreme Court under Article 136 maintainable?

4.1 That the Supreme Court has discretionary power in accepting the appeal under Article 136.

Supreme Court has a discretionary power to entertain appeals in cases where grave and substantial injustice has been done by disregard to the forms of legal process or violation of the principals of natural justice or otherwise.³⁶ The discretionary nature of the power continues until the disposal of the appeals.³⁷ In the current case the decision by CCI that was confirmed by Delhi High court and Division Bench of Delhi High Court is bad in law and has done grave injustice to the appellants.³⁸ It is a well settled law that the Supreme Court won't interfere with the concurrent findings of the courts below unless, of course, the findings are perverse or vitiated by error of law, or if there is gross miscarriage of justice.³⁹ But in case of grave injustice the Court is duty-bound to interfere with the findings of fact.⁴⁰ Hence in the current case there is a grave injustice by the lower courts and the Supreme Court is bound to interfere with the findings of the lower court.

³⁶ Sawant Singh v. State of Rajasthan AIR 1961 SC 715

³⁷ Tahera khatoon v. Salambin Mohammad AIR 1999 SC 1104

³⁸ Factsheet at ¶ 13

³⁹ Surendra Chauhan v. State of M.P. (2000) 4 SCC 110

⁴⁰ Indira Kaur v. Sheo Lal Kapoor AIR 1998 SC 1074

4.2 That the order passed by Competition Commission of India is bad in law.

The order passed by the CCI is bad in law. CCI ordered the DG to investigate for the abuse of dominant position on the grounds submitted by the respondent.⁴¹ It failed to realise that the injunction filed by the appellants against the respondent for is just to save the Intellectual Property Rights.⁴² Under the Indian Constitution, Article 300 A provides a citizen to protect his property, and intellectual property would be covered under Article 300 A.⁴³ Hence injunction is a necessary step to protect the IPR's. The Delhi High Court provided the interim injunction on the prima facie ground that they might have been infringement of IPRs by the respondent.⁴⁴ Infringement is an act that infers with one of the exclusive or absolute rights of a patent, copyright or a trade mark owner.⁴⁵ To get an interim injunction the various courts⁴⁶ have laid down the following principles:-

1. There is a strong prima facie case that the patent is valid and infringed
2. That the balance of convenience is in favour of the injunction being granted.
3. The plaintiff will suffer the irreparable.

In the current case the absolute rights to the IPRs belong to the Appellants⁴⁷. Therefore if the product is manufactured by the respondent then there will be a clear infringement of the IPR's that belong to the appellants, thus forming a strong prima facie case of infringement of

⁴¹ Factsheet at ¶ 13

⁴² Ibid

⁴³ Entertainment Network India Ltd. (ENIL) v. Super Cassette Industries Ltd (2008)13SCC30

⁴⁴ Factsheet at ¶ 12

⁴⁵ Bryan A. Garner, Black's Law Dictionary (1999), page 785

⁴⁶ National Research Development Corporation of India v. Delhi Cloth and General Mills Co.Ltd. and others, AIR 1980 DEL 132

⁴⁷ Factsheet at ¶ 11

the valid IPR's. Secondly since the appellants had the absolute rights, therefore of balance of convenience will be maintained only if the temporary injunction is validly granted.

Thirdly, if the temporary injunction would not have been granted then the appellants who have the absolute rights over the IPR's would have an irreparable loss and a loss of market share. Hence the temporary injunction was valid. Further the respondent contended that the removal of injunction after gaining the access to market was an act of dominance of market. But this was not the case. It can be safely presumed that there is no abuse of dominant position of the appellants. Since the absolute and exclusive rights over the IPRs belonged to the appellants, they had a right to earn an interest over the investment they have been making in their R&D. Further the interim injunction was withdrawn by the appellants which shows the bonafide intentions of the petitioner as prolonged injunction would be in violation of the Competition Act, 2002 as then it would be an abuse of the dominant position and by the withdrawal of the injunction perfect competition is now restored.

Intellectual Property Rights protects and incentivize innovation along with a monopoly right over the invention for a limited period of time. On the other hand competition law protects and prevents unfair competition in the market. Companies can monopolize their technology for a limited period of time. Intellectual property protection per se is not abusive and ironically only serving its legitimate purpose, namely to create incentive for further innovation, when it dominates the market.⁴⁸

⁴⁸ The Inevitable Connection between Intellectual Property and Competition Law: Emerging Jurisprudence and Lessons for India by K.D. Raju, Journal for Intellectual Property Rights, Vol 18, March 2013, page 111-122

Hence the appellants have not committed any kind of abuse of dominant position and order for inquiry for abuse of dominant position by CCI is bad in law.

Prayer

In the light of arguments advanced and authorities cited, the Petitioner humbly submits that the Hon'ble Court may be pleased to adjudge and declare that:

- 1. The appellants are the creditors and scheme should be held invalid.*
- 2. The clause 2.1 is an arbitration clause.*
- 3. The order of CCI was bad in law and inquiry by the DG should be quashed.*

*Any other order as it deems fit in the interest of equity, justice and good
conscience.*

For This Act of Kindness, the Appellant Shall Duty Bound Forever Pray.

Sd/-

(Counsel for the Appellant)