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## Article

### Liabilities of an intermediary – The Indian perspective

By **R. Parthasarathy** and **Godhuli Nanda**

*Electronic commerce or e-commerce, as is commonly known, is a transaction between the buyer and the seller which takes place online i.e. the purchase-sale of goods/services and not from physical brick and mortar shops, malls or kirana stores. The goods are sold through online platforms where the products are displayed and offered for sale. A customer, who wishes to purchase the product, can visit the website, browse the hundreds of choices that exist, identify the products and book an order.<sup>1</sup>*

A Single Judge of the Delhi High Court *vide* judgment dated November 02, 2018, while deciding the suit filed by Christian Louboutin SAS (hereinafter referred to as the ‘Plaintiff’) against Nakul Bajaj and others (hereinafter referred to as the ‘Defendants’) for infringing the trademark of the Plaintiff, for violation of personality rights of Mr. Christian Louboutin and for dilution of the luxury status enjoyed by the products and brands of the Plaintiff, confirmed an *ex-parte ad-interim* injunction in favor of the Plaintiff. The single Judge while delivering its judgment discussed the rights and exemptions conferred upon an intermediary and the conditions under which the said exemptions are to be allowed.

#### *Brief facts and contentions of the parties:*

The Plaintiff, *Christian Louboutin SAS*, manufacturer of luxury shoes is named after its founder – Christian Louboutin, a famous designer of high-end luxury products. The Plaintiff’s products are sold only through an authorized

network of exclusive distributors and at present, in India there are only two stores; one in Mumbai and the other in Delhi which have been authorized by the Plaintiff. The Plaintiff filed the present suit for infringement of trademarks, publicity rights, passing off, unfair competition, dilution, damages, rendition of accounts and delivery up against the Defendants, *Nakul Bajaj and others*. The Plaintiff claimed that the Defendants’ website [www.darveys.com](http://www.darveys.com) (operated by the Defendants) offered for sale various products bearing the luxury brands/names of the Plaintiff and contained the complete Christian Louboutin product catalogue. The said website further claimed that the products were 100% authentic. According to the Plaintiff the goods of the Defendants were impaired and were counterfeits. The Plaintiff further claimed that apart from the sale of the counterfeit products, the Defendants’ website also reflected the image of the founder of the Plaintiff and the terms ‘Christian’ and ‘Louboutin’ were also used as meta tags through which the Defendants attracted traffic to their website.

The Plaintiff had also filed an application for interim injunction under Order 39 Rule 1 and 2 of the Code of Civil Procedure, 1908 (CPC). On September 26, 2014, the Plaintiff was granted an *ex-parte ad-interim* injunction. Thereafter, the Defendants filed their written statement and claimed that they themselves did not sell the goods but merely enabled bookings of orders through their online platform. That they did not purchase any articles for sale, but only booked the orders on behalf of the sellers whose products they displayed on their platform. The

<sup>1</sup> CS (COMM) 344/2018, I.As. 19124/2014, 20912/2014, 23749/2014 and 9106/2015; Order dated 02<sup>nd</sup> November 2018, passed by a Single Judge of the Delhi High Court

Defendants denied that the products sold by them were fakes or counterfeits and further claimed that the goods of the Plaintiff were only offered for sale on their website and that the responsibility with respect to the same was on the sellers on whose behalf the goods were offered for sale.

### *Observations of the court:*

After perusing the pleadings submitted by the parties, the Court was of the view that no factual issue arose for determination and proceeded to frame the following issues:

- (1) Whether the Defendants' use of the Plaintiff's trademarks, logos and image is protected under Section 79 of the Information Technology Act, 2000 (IT Act)?
- (2) Whether the Plaintiff is entitled to relief?

The Court, to have a comprehensive analysis of the liabilities of an intermediary, perused several Indian precedents which dealt with issues pertaining to intermediaries and also discussed precedents dealing with intermediary liability of other jurisdictions such as the European Union and the United States of America. After an in-depth examination, the Court concluded that even though there was no uniformity in the treatment of intermediaries in different jurisdictions, the underlying principles appeared to be the same. The liability of an intermediary could be determined on the basis of the role of the intermediary while providing its service i.e. whether it was active or passive. The degree or requirement of compliance will be higher in case of an intermediary having active participation as compared to one having passive participation.

Thereafter, the Court examined Section 79 of the IT Act (*exemption from liability of intermediary in certain cases*). An analysis of Section 79(1) showed that an intermediary was not liable for third party information, data, links hosted on its

platforms. However, Sections 79(2) and 79(3), are exceptions to Section 79(1). Under Section 79(2)(b) the intermediary should not initiate the transmission, select the receiver of the transmission and select or modify the information contained in the transmission. If any of these actions is done by the intermediary, it may lose the exemption to which it is entitled. In terms of Section 79(3), the exemption under Section 79(1) would not apply if a platform is an active participant or is contributing in the commission of the unlawful act. The words conspired, abetted, aided or induced have to be tested on the basis of the manner in which the business of the platform is conducted and not on a mere claim by the platform. Section 79(3) limits the exemption only to those platforms and online market places which do not aid or abet or induce the unlawful act. Any active contribution by the platform or online market place completely removes the ring of protection or exemption which exists for intermediaries under Section 79. The Court also observed that in order to decide whether there is abetment, aid or inducing or authorizing communication of an unlawful act by an intermediary, Section 101 (*Falsifying and falsely applying trade marks*) and 102 (*Penalty for applying false trademarks, trade descriptions, etc.*) of the Trade Marks Act, 1999 can also be considered.

### *Decision of the court:*

The Court held that any online market place or e-commerce website, which allows storing of counterfeit goods, would be falsifying the mark. Any service provider, who uses the mark in an invoice thereby giving the impression that the counterfeit product is a genuine product, is also falsifying the mark. Displaying advertisements of the mark on the website so as to promote counterfeit products would constitute falsification. Enclosing a counterfeit product with its own packaging and selling the same or offering for sale would also amount to falsification. All these

acts would aid the infringement or falsification and would therefore bring the e-commerce platform or online market place outside the exemption provided under Section 79(1) of the IT Act.

The Court observed that when an e-commerce company claims exemption under Section 79 of the IT Act, it ought to ensure that it does not have an active participation in the selling process. The presence of any elements which shows active participation could deprive intermediaries of the exemption.

The Court further observed that in the present case the Defendants were involved in the promotion and sale of luxury products to its members who sign up for membership. Without having such a membership, one could not make a purchase on the Defendants' website. Further, the sellers were located in foreign jurisdictions and therefore it was not even clear as to whether the sellers were in fact selling a genuine product or not. In such cases giving exemption under Section 79 would in fact amount to legalizing the infringing activity. The Defendants even though have claimed that the details of the sellers were available in their website, the said details were not reflected. Therefore, it was quite clear that the sellers were not known and the persons from whom the sellers buy these products were also not known. It was also not known if the products were genuine or not, though the Defendants represented the same to be genuine. In view of these factors, the Court held that the Defendants could not be termed as an intermediary entitled to protection under Section 79 of the IT Act.

The Court held that the use of the mark, Christian Louboutin, without the permission of the Plaintiff and without ensuring that the products which were sold, were in fact genuine, would constitute a violation of the Plaintiff's rights.

The Court observed that when any product turns out to be counterfeit or not up to the mark,

then it is the trademark owner's brand equity which is diluted. The seller himself does not suffer. If in such situations immunity is conferred on the intermediary, then such immunity is beyond what is contemplated to intermediaries under Section 79 of the IT Act. While Section 79 of the IT Act is to protect genuine intermediaries, it cannot be abused by extending such protection to those persons who are not intermediaries, are active participants in the unlawful act. In the present case, where the sellers were located on foreign shores and the Plaintiff did not have any option of exercising any remedy against the said sellers, it was observed that the Plaintiff should not be left remediless.

In view of the above findings, the *ad-interim* injunction granted in favour of the Plaintiff was made absolute and the suit and other interim applications were disposed of. However, no order for damages or rendition of accounts or costs was passed. The Defendants were directed *inter alia* to disclose the complete details of its sellers, to obtain a certificate from its seller that the goods are genuine, to give prior intimation to the Plaintiff before uploading any of its products and to remove all meta tags consisting of the Plaintiff's trademarks.

*When an e-commerce website is involved in conspiring, abetting, aiding or inducing to sell counterfeit products or conducts its business in such a manner, it could be said to cross the line from being a mere intermediary to an active participant. In such a case, the platform or the online marketplace could be liable for infringement in view of its active participation. E-commerce websites and online marketplaces ought to operate with caution if they wish to enjoy the immunity provided to the intermediaries.*

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## Statute Update

**Draft Patent (Amendment) Rules, 2018 published:** Department of Industrial Policy and Promotion has on December 04, 2018, published the Draft Patent (Amendment) Rules, 2018 to further amend the Patents Rules, 2003. The said draft Rules, *inter alia*, call for insertion of Rule 55(2A) whereby a pre-grant patent opposition will be decided by a two-member Bench, to be constituted by the Controller for this purpose. In addition to start-ups, female applicants/ inventors

and small entities are proposed to be made eligible to avail the expedited examination route under Rule 24C. Further, while filing an application for request for expedited examination in FORM 18A, FORM 28 (declaration as to status of the applicant) would have to be mandatorily submitted once the amendment Rules are notified. The 30-day period for providing objections and suggestions on the draft expired on January 03, 2019.



## Ratio decidendi

**No summary adjudication of suit requiring expert evidence, at injunction stage**

Setting aside a High Court Division Bench Order, the Supreme Court has remanded a suit back to the Single Judge in a dispute involving alleged infringement of patented technology by use of seeds/hybrid seeds bearing the patented technology. The Court in this regard observed that defendants counter claim was never considered by the Single Judge, and that the Division Bench ought not to have examined the counter claim itself. It held that summary adjudication of a technically complex suit requiring expert evidence, at the injunction stage, was not desirable or permissible in law. The patent involved an artificial gene and the process for inserting it into the genome of a plant thus conferring the trait of insect tolerance to the plant.

The Court observed that the defendants themselves had contended in their appeal that the issues were complicated requiring expert evidence to be considered in a full-fledged trial. It

noticed that suit involved complicated mixed questions of law and facts about patentability and exclusion of patent which could be examined in the suit on the basis of evidence. The court was of the view that issues raised were complicated requiring technological and expert evidence about issues of chemical process, biochemical, biotechnical and microbiological processes. It observed that the question whether the nucleic acid sequence trait once inserted could be removed from that variety and whether the patented DNA sequence was a plant or a part of a plant etc., are all matters which are required to be considered at the final hearing of the suit. [*Mosanto Technology LLC v. Nuziveedu Seeds Ltd.* - Civil Appeal Nos. 46164617/2018 and Ors., decided on 8-1-2019, Supreme Court]

**Composite suit for passing-off and infringement of registered design is maintainable**

Five Judge Bench of the Delhi High Court has held that a composite suit for infringement of

registered design and passing-off is maintainable. The Court observed that if there is common question of law and facts, the joinder of causes of action can take place under Order II Rule 3 of the Civil Procedure Code, 1908 to avoid multiplicity. It overruled the three judges Bench Order in the case of *Mohan Lal v. Sona Paint* [2013 (55) PTC 61 (Del) (FB)] which had held that the two causes of action cannot be joined. It noted that the transaction of sale was same and the evidence of two causes of action was common.

The court also was of the view that a composite suit would present a bird's eye view of the case and if for some reason, the Plaintiff's claim for infringement is *prima facie* weak, the Court can review the same facts and evidence on the issue of passing-off, necessitating interim relief and saving the Plaintiff from the hassle of another action before another court. It observed that that the basic facts which impel a plaintiff to approach a court, complaining of design infringement are the same as in the case of passing off. The suit was with respect to the bottle and get up of Carlsberg mark. [*Carlsberg Breweries v. Som Distilleries & Breweries - C.S.(COMM) 690/2018*, decided on 14-12-2018, Delhi High Court]

### Renewal Fee for registered plant variety to be as per Rule 39 of the PPV&FR Rules, 2003

Delhi High Court has allowed a writ petition, relating to the computation of the quantum of the renewal fee which is to be paid by the breeder of a plant variety registered under the Protection of Plant Varieties and Farmers' Rights Act, 2001. Resolving the repugnancy between Rule 39 of the Protection of Plant Varieties and Farmers' Rights Rules, 2003 (PPV&FR Rules, 2003) and Entry 5 of the Second Schedule to the said Rules, it was held that the quantum of renewal

fee to be paid is to be computed as per the provisions of the Rule 39, i.e. based on the average annual fee levied during the last two years of the initial period of registration of the registered plant variety. The Court in this regard observed that insofar as the renewal of registration is concerned, Rule 39 is an exhaustive provision and would override the Second Schedule. [*Maharashtra Hybrid Seed Co. Pvt. Ltd. v. Union of India - W.P.(C) 788/2017*, decided on 7-1-2019, Delhi High Court]

### Trademark - Honest use of competitor's mark for comparison allowed

The Delhi High Court has held that failure to point out competitor's advantage is not necessarily dishonest and that primary objective of Trademarks Sections 29(8) and 30(1) is to allow comparative advertising as long as the use is honest. The Court dismissed a suit for permanent injunction against advertisement depicting one cup of Complan equal to two cups of Horlicks. It noted that the advertisement does not compare formula of two drinks and that depiction was creative, making comparison on 'per serving size' as recognized under provisions of Foods Safety & Standards law. Rejecting the plea that comparison of hundred (100) grams of plaintiffs and defendant's products should be made, it observed that the concept of 'per serving' size is well recognized not only by the industry but also under the statute.

The Court relied on an earlier decision in the case of *Havells India Ltd. v. Amritanshu Khaitan*, which had held that though in comparative advertising a certain amount of disparagement is implicit, yet the same is legal and permissible so long as it does not mislead. [*Horlicks Ltd. v. Heinz India - CS(COMM) 808/2017*, decided on 17-12-2018, Delhi High Court]



## News Nuggets

### Trademark infringement by storing of infringed goods

The CJEU has held that storing of goods may constitute infringement under EU Directive 2001/29/EC- Article 4(1), provided that the goods stored are intended for unauthorised sale. The dispute involved storage of goods with protected motif by a retailer who sold identical goods at his shop without distribution rights when Swedish law does not expressly prohibit storage of protected goods for sale. Court in a criminal proceeding against *Imran Syed* held that the actual purpose of the stored goods should be considered.

### No registration of mark having sign designating wine and geographical name

The CJEU has reiterated that a designation which is descriptive in nature and easily recognisable by a relevant class of persons as one of the characteristics may not be registered as a commercial trade mark. In a reference ruling from the Supreme Court of Portugal, the court in *J. Portugal Ramos Vinhos v. Adega Cooperativa De Borba*, refused registration for a word mark 'adegaborba.pt' composed of sign designating wine production and a geographical name and making up business name of legal person seeking to register, for being descriptive and devoid of any distinctive character.

### TV commercials disparaging frozen dessert to delete derogating portions

The Bombay High Court has reiterated that if a TV commercial shows that the advertiser's product is the best without derogating other's product then the same would not amount to disparagement. The Court, however, in *Gujarat Co-operative Milk Marketing Federation Ltd. v. Hindustan Unilever Ltd.* partly allowed use of TV Commercials after deleting the portions disparaging the frozen desserts which are mostly manufactured by the respondent. It found that the first impression of advertisement was that frozen desserts uses 100% Vanaspati oil and are therefore harmful in general.

### Copyright claim based on power of attorney when not correct

The Karnataka High Court has reiterated that the copyright in respect of songs which are part of a cinematographic film vests with the producer of the film while authorship of songs lies with the composer of those songs. Dismissing the appeal of the heir of a popular singer of yesteryears, the Court in *Shumita Deb v. Saregama India* also observed that appellant-plaintiff cannot claim copyright of her father based on a power of attorney executed by her late father. The Court found it difficult to say that petitioner could act on power of attorney after death of her father.

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