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IN THE HIGH COURT OF DELHI AT NEW DELHI

Reserved on : 24th July, 2018

Date of decision : 12th November, 2018

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CS(COMM) 979/2016 & I.A. 24578/2014

SKULLCANDY INC

..... Plaintiff

Through: Mr. Rishi Bansal and Mr. Vinay
Kumar Shukla, Advocates.
(M:9654130460)

versus

SHRI SHYAM TELECOM & ORS

..... Defendants

Through: Mr. Nitin Sharma and Ms. Snehima
Jauhri, Advocates for Defendant No.3
(M:9910739913)

CORAM:

JUSTICE PRATHIBA M. SINGH

JUDGMENT

Prathiba M. Singh, J.

1. The Plaintiff has filed the present suit seeking an injunction against use of the trademark 'SKULLCANDY' by the Defendants and sale of the 'SKULLCANDY' products on the Defendant's website www.shopclues.com.
2. The Plaintiff is engaged in the business of manufacture, distribution, and sale of various devices/accessories, for use with mobile phones; Digital audio players; Digital phones; Earphones; Headphones; MP3 players; Portable listening devices, namely; MP3 players; Portable media players; Protective helmets; Protective helmets for sports; Sports helmets.
3. The mark 'SKULLCANDY' is stated to have been coined in the year 2003. The said mark is also registered in India in class 9 and 25. The

'SKULLCANDY' mark is also represented in a unique logo form which is an original artistic work protected under copyright laws. The Plaintiff claims enormous goodwill and reputation internationally. It is also claimed that the 'SKULLCANDY' products are available in India and are also extensively advertised in India. The Plaintiff came to know that Defendant Nos.1 and 2 are the sellers/merchants on the Defendant No.3 website www.shopclues.com. Defendant No.3 M/s. Clues Network Pvt. Ltd. is the owner of the website www.shopclues.com, which is interactive in nature and is an online market place. The Plaintiff found 'SKULLCANDY' earphones being sold on the Defendant's website and it affected a purchase of two earphones.

4. Paragraph 23 of the plaint asserts that an examination of the products revealed that the same were not of the Plaintiff's origin, were of inferior quality, and thus counterfeit. They were also being offered at massive discounts. The suit was filed accordingly, against all the Defendants. This Court on 8th December, 2014, had granted an ex-parte injunction in the following manner: -

"I have heard learned counsel for the plaintiff and also perused the plaint, application and the documents filed along with the plaint. I am satisfied that it is a fit case for grant of ex parte ad interim injunction. Accordingly, till the next date of hearing, defendants, their servants, agents, proprietors, representatives, distributors, assigns, stockists or anyone acting for and on their behalf, are restrained from manufacturing, marketing, purveying, supplying, using, selling, soliciting, exporting, displaying, advertising on the online marketplace including the website www.shopclues.com or through any other mode dealing in or using the plaintiff's trademark

Skullcandy or its device, or any other word/mark which is identical or deceptively similar to the plaintiff's trademark/label or device.

Plaintiff shall comply with the provisions of Order XXXIX Rule 3 CPC within four days from today."

5. Thereafter, Defendant Nos.1 and 2, i.e., the resellers settled the matter with the Plaintiff and an application under Order XXIII Rule 3 was filed. The suit was decreed as settled in terms of paragraphs 36(a)(i) to 36(a)(iii) of the plaint. The matter remained pending in respect of Defendant No.3 only i.e. the e-commerce platform. An application under Order VII Rule 11 came to be filed along with an application under Order XIII-A for summary judgment. All the applications were dismissed on 23rd February, 2017. Admission/denial of documents has been completed and the matter was listed for case management on 24th July, 2018.

6. Submissions have been addressed on behalf of both the parties and both counsels have no objection if the suit is disposed of finally. The first and foremost submission of learned counsel for Defendant No.3 is that the website has a proper takedown policy and if notices were given, the website is willing to abide by the said policy. Mr. Nitin Sharma, learned counsel for Defendant No.3 relies on similar orders passed in other matters where orders to the following effect have been passed: -

"CS(OS) 2716/2015

I.As. No.18687/2015 & 5328/2017

Learned counsel for the defendant no. 1 undertakes to remove any alleged infringing listing within two days of being informed by the plaintiffs specifying the details of such listing of other data, link or communication. The defendant no. 1 also

undertakes to disclose the names of the infringing parties, who have been uploading the infringing material on their websites.

He further states that in the event the plaintiffs inform the defendants of any alleged illegal listing on their e-mail ID, namely, legal@shopclues.com, requisite legal action shall be taken within 48 hours.

The undertakings given by learned counsel for the defendant no.1 is accepted by this Court and defendant no. 1 is held bound the same.”

7. He further submits that a similar order can be passed in the present case.

8. On the other hand, learned counsel for the Plaintiff submits that protection of Section 79(1) of the IT Act cannot be granted to Defendant No.3. In fact Section 79(1) is subject to Section 79(2) and 79(3) of the same. He relies on the various tasks performed by the website in the course of sale which show that the role of Defendant No.3 is more than that of an intermediary. He relies on the following facts to support his case that the website is not an intermediary: -

- “(a) Direct revenue source and interest on commission basis on per product sales-Page No.34 of list of documents filed by Defendant No.3 along with their written statement.*
- (b) Specific product based advertisements on third party media – Page No.24 of list of documents filed by the Plaintiff along with its reply to application under Order XIII-A of CPC, 1908.*
- (c) Creation of a category named ‘Replica’ and others – Page No.22 of list of documents filed by the Plaintiff along with its reply to application under Order XIII-A of CPC,*

- 1908.
- (d) *Statement made by Defendant No.3 (www.shopclues.com) on its website to the effect that “All products at shopclues.com are brand new, 100% genuine and come with manufacturer’s warranty wherever applicable.” – Page No.33 of list of documents filed by the Plaintiff along with its reply to application under Order XIII-A of CPC, 1908.”*

9. It is further submitted that the due diligence required under Section 79 (2)(c) is not being conducted by the website. Further, the intellectual property rights programme of Shopclues.com is relied on by the Plaintiff to show that the due diligence and the takedown policy is not compliant enough for Shopclues.com to escape liability. It is also submitted that the website is a known platform for sale of infringing products. Specific reliance is placed on an order dated 18th May, 2015 passed against the same Defendant, in another suit, wherein a learned Single Judge of this Court has noted as under: -

“I.A. No.10325/2015

Present application has been filed under Order 39 Rule 4 CPC primarily on the ground that intermediaries are exempt from liabilities under Section 79 of the Information and Technology Act, 2000.

However, this Court finds that in the present plaint there is an allegation that the applicant-defendant who was an intermediary, was involved in the commission of unlawful acts. Even otherwise, this Court finds that there are at least four cases filed by different companies alleging that their counterfeits products are being sold on the defendant-applicant’s website.

In the opinion of this Court, it cannot be a matter of chance that so many counterfeit products are being sold on the applicants-defendants website. Consequently, this Court is of the view that no ground for vacation of stay has been made out.

Accordingly, present application is dismissed.”

10. Thus, it is submitted that Shopclues.com is a known violator of trademark rights of owners. In one case, the Defendant was also proceeded against for having committed contempt. On this basis, learned counsel for the Plaintiff submits that the protection under Section 79 of the IT Act ought not to be extended to Defendant No.3 website.

11. A perusal of the written statement filed by Defendant No.3 shows that the website claims to have more than 1,00,000 registered merchants and 16 million products advertised in the same. It claims to be working on a zero inventory marketplace model. The relevant paragraph of the written statement is set out herein below: -

“6. That the flagship brand of the Answering Defendant is “www.shopclues.com” (hereinafter referred to as the “website”). As stated hereinabove, the said website is a market-place in its true sense. With over 1,00,000 registered merchants and 16 million products listed on the website, the Answering Defendant is not involved in the manufacturing, producing, purveying or selling of any products through the aforementioned website. The Answering Defendant is a service provider and acts as an intermediary between merchants and buyers. The website works on a zero-inventory marketplace model, where thousands of merchants are given the opportunity

to display their product catalogues on the basis of various management tools as well as marketing and decision-enabling analytics. Suffice to state, the website provide vendors, merchants and distributors to set up an online shop to market and sell their products on the website as deemed fit and appropriate by the merchants. The website simply provides infrastructural technology services assisting the consumers/buyers and the merchants/vendors with internet marketing services, payment services, as well as provide fulfillment and logistics services through its courier/ logistics partners to certain merchants/sellers but does not take possession or title of any product or service sold.”

12. The Defendant also relies on various inbuilt checks for registration of vendors, for processing of transactions, etc. It claims that it is not involved in the manufacture, sale and purchase of the products, but is only providing a technological interface. The courier/logistics is, however, provided to the sellers through its partners. It claimed that a service fee is paid by the vendor for providing the platform for processing the orders and thus it is only an intermediary.

13. The Defendant, however, admits that it provides two categories of customer care service: -

- (i) Services provided by the website, like the ability to place orders; and
- (ii) Customer support for product quality.

14. Insofar as the latter is concerned, the website claims that the grievances which are raised by users are redirected to the seller, though the logistical services are provided by the website. In this manner, the website

argues that it acts only as an intermediary.

15. In response to paragraphs 22 and 23 of the plaint, where the manner of purchase of the product and the fact that it is counterfeit is pleaded, the Defendant states that it has no knowledge of the same. It claims that the product in question was delivered by Defendant No.1, the seller. The website also claims that it does not control the listing of the product, the manufacture or the sale. Even the invoice is relied upon to state that it is generated by the vendor. The Defendant states that the Plaintiff is put to strict proof as to how the product is stated to be the counterfeit.

16. The Defendant in its admission and denial of documents has denied most of the documents except a few declarations from its website. The Plaintiff has also denied all the documents filed by the Defendant. What is, however, important is that the Defendant has admitted a copy of a declaration which is a printout of the website of “www.shopclues.com” titled protection of intellectual property report abuse. As per this policy, any person who believes that its IPR rights are being violated can send a notice of infringement form, specifying the infringing listings. Upon being satisfied of the veracity, and genuineness, Shopclues.com immediately directs delisting of the product. The same is called as the PIP programme. A draft notice of infringement has also been included therein. The website of the Defendant No.3 also has a remark to the following effect: -

“Please Note: All products at ShopClues.com are brand new, 100% genuine and come with Manufacture’s warranty wherever applicable.”

17. Some of the salient features of the Shopclues.com website are that there is a separate category for replicas on its website. On this window,

various lookalike products are advertised and sold. The use of the term replica itself denotes that it is a lookalike or a copy of the original. While the PIP programme appears to be effective, the display of a replica window is definitely not condonable.

18. The Plaintiff admits that the Defendant is an intermediary in paragraph 20 of the plaint. The extract from the plaint reads as under:

“20. That the Defendant No.3 namely M/s Clues Network Pvt. Ltd. private limited company having its headquarters at Building No. 112, Sector-44, Gurgaon-122001, Haryana, India, and its registered office at B1 Pragati Chambers, 15, Dutt Vihar Society, Jetalpur Road, adodara, 390 007, Gujarat, India and also having its corporate office at 40 A/5, Chander Nagar, Sector - 15, Part - 2, Gurgaon (Haryana) is the registrant and owner of the website www.shopclues.com (hereinafter referred to as "impugned website"). The impugned website is interactive in nature and operates under the business model of e-commerce, on which it is possible to browse and purchase a wide range of products including the impugned goods. The impugned website is an online marketplace and an intermediary, whose modus operandi is to facilitate the transactions by providing a platform to the merchants and customers for entering into buying and selling of goods.”

19. Recently, in ***Christian Louboutin SAS v. Nakul Bajaj & Ors.*** [CS(COMM) 344/2018 decision dated 2nd November, 2018] This Court had the occasion to deal with the role of intermediaries and their liabilities. The relevant extracts from the said judgement are set out below:

“55. E-commerce websites are of different kinds. There are several platforms which have transparent privacy policies, takedown policies and IPR policies. They also

have a dedicated unit dealing with complaints of IP owners. They also reveal complete details of the sellers who are actually placing their wares for sale on the platform. However, some e-commerce platforms do not have all these features. The sellers' full names are unknown, and the sellers, are on a large number of occasions located in foreign countries. The website does not give the warranty and neither does the seller. There are certain platforms which promote their own affiliate sellers on their own market place. They are however not shown as affiliated companies on their platforms. Some platforms also offer enormous logistic support such as storage facilities, transportation, delivery, guarantees of authenticity and warranties, exchange, after sales service, etc. Some platforms raise invoices in the name of the service provider. Payments are collected by the platforms. There are several online market places which simply provide a platform for the user to upload his/her information for further dissemination. For example, auction websites, where one user uploads the photos of his products, and labels it with a price, and another user simply accepts to purchase it on as is where is basis from the said seller. Such a record of that product could be transmitted through the website and would constitute receipt, storage or transmission. The question is whether in these cases the operators of these platforms can continue to qualify as intermediaries or not.

56. The crucial words in the definition of intermediaries as per Section 2(w) of the IT Act are 'receives, stores, or transmits a particular electronic record or provides service with respect to the record'. Online marketplaces are specifically mentioned in the definition of 'intermediaries' in Section 2(w). However, what would be the ambit of a service contemplated in Section 2(w)? Would it include those entities which perform the following tasks: -

- i. Identification of the seller and providing details of the seller;*
- ii. Providing transport for the seller to send his product to the platform's warehouse;*
- iii. Uploading the entry of the said product;*
- iv. Providing quality assurance after reviewing the product;*
- v. Providing authenticity guarantees;*
- vi. Creation of the listing of the said product;*
- vii. Providing reviews or uploading reviews of the product;*
- viii. Enrolling members upon payment of membership fees;*
- ix. Promoting the product amongst its dedicated database of customers;*
- x. Advertising the products on the platform;*
- xi. Giving specific discounts to members;*
- xii. Providing assistance for placing a booking of the product, including call centre assistance;*
- xiii. Accepting an order on a particular payment gateway promoted by the platform;*
- xiv. Collecting the payment through users registered for electronic payment modes;*
- xv. Packaging the product with its own packing, instead of the original packing of the trade mark owner or changing the packaging in which the original owner's product is sold;*
- xvi. Transporting the product to the purchaser;*
- xvii. Employing delivery personnel for delivering the product;*
- xviii. Accepting cash for sale of the product;*
- xix. Transmission of the payment to the seller after retaining commission;*
- xx. Promoting its own affiliated companies on the basis of more favourable terms than other sellers;*
- xxi. Entering into favourable arrangements with various sellers;*
- xxii. Arranging for exchange of the product if there*

- is a customer complaint;*
- xxiii. Providing/arranging for service if the product requires the same;*
- xxiv. Booking ad-space or ad-words on search engines;*
- xxv. Using trade marks through meta-tags or in the source code of the website in order to attract traffic;*
- xxvi. Deep-linking to the trade mark owner's website;*

57. Can an e-commerce platform or an online market place which performs any or all of the above tasks, continue to constitute an intermediary, and can the above services be construed as "any service with respect to that record"?

58. Can the said conduct of the platforms be termed as inactive, passive, or merely technical or automatic processing? Can such platforms be considered as being in a neutral position, or should they be held as having active participation in the trade? These are the questions that arise in the present case.

59. Further it has to be also seen as to whether the platform is taking adequate measures to ensure that no unlawful acts are committed by the sellers. For this the following issues, inter alia, need to be factored:

- i. The terms of the agreements entered into between the sellers and the platform;*
- ii. The manner in which the terms are being enforced;*
- iii. The consequences of violation of the terms;*
- iv. Whether adequate measures are in place to ensure that rights in trademarks are protected;*
- v. Whether the platforms have knowledge of the unlawful acts of the seller.*

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62. While the so-called safe harbour provisions for intermediaries are meant for promoting genuine businesses which are inactive intermediaries, and not to harass intermediaries in any way, the obligation to observe due diligence, coupled with the intermediary guidelines which provides specifically that such due diligence also requires that the information which is hosted does not violate IP rights, shows that e-commerce platforms which actively conspire, abet or aide, or induce commission of unlawful acts on their website cannot go scot free.

63. The elements summarised above would be key to determining whether an online marketplace or an e-commerce website is conspiring, betting, aiding or inducing and is thereby contributing to the sale of counterfeit products on its platform. When an e-commerce website is involved in or conducts its business in such a manner, which would see the presence of a large number of elements enumerated above, it could be said to cross the line from being an intermediary to an active participant. In such a case, the platform or online marketplace could be liable for infringement in view of its active participation. Needless to add, e-commerce websites and online marketplaces ought to operate with caution if they wish to enjoy the immunity provided to intermediaries. The question, however, would have to be determined after reviewing the practices of various websites under the facts and circumstances of a particular case.

64. So long as they are mere conduits or passive transmitters of the records or of the information, they continue to be intermediaries, but merely calling themselves as intermediaries does not qualify all e-commerce platforms or online market places as one.

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66. An analysis of the said Section shows that an intermediary is not liable for third party information, data, links hosted on the platforms. However, Section 79(2) and 79(3), qualify the manner in which the said protection is granted to intermediary. The protection is not absolute. 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.

67. If any of the above is done by the intermediary, it may lose the exemption to which it is entitled. It extends under the circumstances contained in the provision itself which are:

- a) Under 79(2)(a), if mere access is provided through the communication system to the third party or if there is temporary storage or hosting of the information;
- b) Under 79(2)(b)(i), if the platform is not responsible for initiating the transmission, i.e., placing the listing on the website;
- c) Under 79(2)(b)(ii), if the platform is not involved in selecting the persons who receive the information;
- d) Under 79(2)(b)(iii), if the platform does not have the power to select or modify the information;
- e) Under 79(2)(c), the platform has the obligation to observe overarching due diligence.

68. Section 79(1) is also qualified by sub-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) has two dimensions i.e., Section 79(3)(a) and Section 79(3)(b). The latter relates to having a policy to take down information or data or link upon receiving information. However, the former is an integral part of the exemption granted under Section 79(1). Section 79(3)(a) limits the exemption only to those intermediaries i.e. platforms and online market places who 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.

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70. A perusal of the guidelines shows that they are framed under Section 79 of the IT Act. The 'due diligence' provided in the Act, has to be construed as being broad and not restricted merely to the guidelines themselves. The intermediaries are obliged to have agreements that the sellers shall not host, display or upload products that violate any trade mark rights, copyrights or patent rights or any other proprietary rights. The guidelines are what they claim to be i.e., mere GUIDELINES.....

71. They do not and cannot substitute themselves either for the provision in the IT Act i.e., Section 79 or nullify provisions in other applicable laws. These guidelines are framed under Section 79(2) and would not negate the stipulations in Section 79(3)(a). The guidelines would not offer protection to any 'intermediary' that have 'conspired', 'abetted' or 'aided' or 'induced the commission' of an unlawful act. It cannot be argued that anyone who complies with the guidelines is automatically not conspiring, abetting, aiding or inducing commission of an unlawful act. Following the guidelines may in certain cases satisfy that the online market place is behaving as an intermediary but the

same is not conclusive. What is lawful or unlawful depends on the specific statute being invoked and the Guidelines cannot be considered as being exhaustive in their manner of application to all statutes.

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76. The overriding nature of the IT Act has application only if the provisions of the Trade Mark Act are inconsistent with the provisions of the IT Act. The Intermediary Guidelines 2011 themselves require compliance with the TM Act by the persons to host, display or upload the products or services. The provisions of Section 29, Section 101 and Section 102 of the TM Act, are being looked at in order to interpret as to what constitutes 'conspiring, abetting, aiding or inducing' the commission of an unlawful act, in the context of trade mark rights. The provisions of the TM Act are not in any manner inconsistent with the provisions of the IT Act. Hence Section 81 of the IT Act does not grant any immunity to intermediaries who may be in violation of the provisions of the TM Act. While, use of a mark for any of the purposes elaborated above, in respect of genuine goods of the owner would not be infringement, the performance of any service as elaborated above, in respect of counterfeit goods or goods which are not genuine, could constitute infringement.

77. Thus, for illustration purpose, 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 of the IT Act.

78. Thus, the various factors that are enumerated in the paragraphs above and the absence/presence of the said factors would hold the key to determining whether an e-commerce website is actually an intermediary or not. 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.

79. In the world of e-commerce, IP owners face challenging times. This is because sellers of counterfeit or infringing products seek shelter behind the platform's legitimacy, like in the case of Darveys.com.....

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81. The trademark owner loses its huge customer base especially in the case of luxury products. If the products turn 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. 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 and are active participants in the unlawful act. Moreover, if the sellers themselves are located on foreign shores and the trade mark owner cannot exercise any remedy against the said seller who is

selling counterfeits on the e-commerce platform, then the trade mark owner cannot be left remediless.”

20. Thus, the question as to whether an online market place is an intermediary or not depends on a number of factors. In this case, the sellers’ details are contained in the invoice and the same are also visible on the website. The website is however facilitating payment and allowing sellers to use its partners for logistical support. The website also has a take-down policy called as PIP programme, as per the Intermediary Guidelines, 2011.

A number of elements in respect of the Shopclues.com website point to the fact that the role of the website is shown to be that of an intermediary.

21. However, there are several other features of the website that point to the fact that Shopclues.com is not merely an intermediary. For example:

- i. the website guarantees that “all products are 100% genuine”;
- ii. repeated sales of counterfeits have been encountered on the website;
- iii. Despite several infringement actions against it, the website doesn’t seem to be taking precautions to stop sale of counterfeits;
- iv. There is a separate category for replicas on its website. On this window, various lookalike products are advertised and sold. The use of the term replica itself denotes that it is a lookalike or a copy of the original. While the PIP programme appears to be effective, the display of a replica window is definitely not condonable.
- v. This REPLICA window encourages sellers to post lookalike products as the feature of the replica window would constitute aiding and abetment of violation of intellectual property.

22. The above factors, inter alia, disqualify the website www.shopclues.com for the exemption under Section 79 of the Information

Technology Act, 2000 as the role of the website is more than that of an intermediary.

23. Thus, the suit is decreed in the following terms against Defendant No.3, Shopclues.com:

- a) Shopclues.com is directed with immediate effect, to disclose the complete details of all its sellers, their addresses and contact details on its website;
- b) Shopclues.com is directed to obtain a certificate from its sellers that the goods are genuine;
- a) Prior to uploading a product bearing the Plaintiff's marks, it shall notify the plaintiff and obtain concurrence before offering the said products for sale on its platform;
- b) Shopclues.com enter shall into a proper agreement with its various sellers, under which it shall obtain guarantee as to authenticity and genuinity of the products as also provide for consequences of violation of the same;
- c) Upon being notified by the Plaintiff of any counterfeit product being sold on its platform, it shall notify the seller and if the seller is unable to provide evidence that the product is genuine, it shall take down the listing and notify the plaintiff of the same, as per the Intermediary Guidelines, 2011;
- d) It shall also seek a guarantee from the sellers that the product has not been impaired in any manner and that all warranties and guarantees of the Plaintiff are applicable and shall be honoured by the seller. Products of any sellers who are unable to provide such a guarantee shall not be offered on the Defendant's platform;

- e) The replica window appearing on the website is directed to be taken down within one week.

24. The Suit is decreed in the above terms. All pending IAs also stand disposed of. Decree sheet be drawn.

PRATHIBA M. SINGH
Judge

NOVEMBER 12, 2018

Rekha

