

Amazon v. Amway: Items sold on E-Commerce Marketplaces without the DSCs' Permission is NOT Trademark Infringement or Passing-off

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A Division Bench of the Delhi High Court overruled the judgment passed by Single Judge in *Amway India Enterprises Pvt. Ltd. v. 1MG Technologies Pvt. Ltd. & Anr*¹ in 2019 (“previous order”) where several e-Commerce marketplaces like Amazon, Snapdeal, 1MG, and other independent sellers were barred from making any sale, advertise, offer to sell, or even display any goods in violation of trademark and third-party agreements. Direct Selling Corporations (“DSCs”) namely Amway, claimed that e-Commerce marketplaces were selling and advertising their items without their permission, in violation of their trademark rights and the Direct Selling Guidelines, 2016 (“2016 DSG”). The 2016 DSG are the regulations that regulate the sales where the products and services are provided directly to the customers, and also safeguard the interests of direct sellers through regulating contracts as well. And, Clause 7(6) of the 2016 DSG states that before making any DSCs’ items available for purchase, such e-Commerce marketplace or other social media platforms must seek their prior written consent.

An appeal was made against the previous order where the Division Bench found the prior judgment been made without examining whether the grant of an injunction would severely affect the marketing experience of all the customers in this digital era who would want to buy such commodities from e-Commerce marketplaces and if it would deprive those naive customers of their choice as well as legal right to purchase such commodities from e-Commerce marketplaces while maintaining free trade. The Division Bench in *Amazon Seller Services Pvt. Ltd. v. Amway India Enterprises Pvt. Ltd. & Ors*², has now reversed the previous order, allowing e-commerce marketplaces to sell market Direct Selling Corporations’ (“DSCs”) items without their permission. It also dismissed DSCs’ allegation that e-commerce marketplaces had sold damaged, altered, or counterfeit goods, holding that at this point there is no such conclusive or tangible proof, and it could only be proven after a trial.

The following are the four major issues addressed in this decision:

1. Whether and to what extent the 2016 DSG are valid and binding on the e-commerce marketplaces?

In the previous order, the Single Judge incorrectly concluded that 2016 DSG had acquired the character of legislation under Article 13 of the Indian Constitution as a result of their publication in the Official Gazette. While noting the error in the judgment, the Division Bench reminded out that the document’s title conveys its purpose- “Advisory to State Government/Union Territories”. As a result, it was clear that the 2016 DSG was intended to be strictly advisory and the status of “law” is not conferred by mere publication in the Official Gazette. The Division Bench further stated that rules without a legislative character cannot be enforced through the courts, and therefore, Amazon’s non-compliance with Clause 7(6) of the 2016 DSG cannot be regarded as a legal breach.

2. Whether the DSCs’ merchandise being sold on e-commerce marketplaces amount to trademark violation, as well as degrading their brands’ goodwill and reputation?

The Division Bench was of the opinion that the reports presented before the Single Judge were just not sufficient and even at present no evidence can prove conclusively that the goods of DSCs were tampered with, altered, or counterfeited before being sold on e-commerce marketplaces. It also rejected the alleged misrepresentation or passing off claims because the Direct Sellers’ information was already listed on these marketplaces, and additionally stated that even the DSCs had never asserted anything related to trademark registration in their plaints.

Further, by citing the judgment laid down in *Kapil Wadhwa vs. Samsung Industries*³, the Division Bench reaffirmed that India adopts the Principle of International Exhaustion. According to this principle, a trademark owner’s rights terminates when the goods are sold for the first time, and the buyer acquires ownership of it. And therefore, it will not be considered an infringement whether it is sold in any market, domestic or foreign. Also, the Trade Marks Act of 1999, Section 30(3), does

not limit the lawful acquisition and subsequent sale to an international market. Thus, the Division Bench held that the sale of Amway products by the Direct Sellers on the e-marketplaces could not be deemed to be an infringement because once the goods are sold and the ownership is transferred from the DSCs to their individual Direct Sellers, no restrictions on online sales of the commodities can be imposed on the Direct Sellers.

One such constraint is that the customer cannot resell the product online, as stipulated in Clause 7 (6) of the 2016 DSG. The Division Bench held, in the absence of any contractual commitment and binding obligation between the e-Commerce marketplaces and the DSCs, such a condition was found to be unenforceable in this case. It further stated that rules without a legislative character cannot be enforced through the courts, and therefore, Amazon's non-compliance with Clause 7(6) of the 2016 DSG cannot be regarded as a legal breach.

3. Whether e-Commerce marketplaces could be considered "intermediaries" under the Information Technology Act and the Intermediary Guidelines of 2011, and if they could be granted Safe Harbor Protection?

According to Section 79 of the Information Technology Act, 2000 ("IT Act"), "safe harbor protection" is provided to any intermediary that makes information, data, or communication links available or hosted by him and shall be exempted from legal liability in such circumstances. The Single Judge wrongly interpreted Section 79 of the IT Act and ruled that e-Commerce marketplaces are more than just passive non-interfering marketplaces; they are also providers of additional value-added services, effectively removing them from the category of mere intermediaries.

The Division Bench contrarily held that the mere fact of e-Commerce marketplaces providing a wide range of value-added services such as packaging, shipping & delivering, and warehousing does not preclude them from benefiting from the liability exemption provided by Section 79 of the IT Act. It came to the conclusion that, under Section 79 of the IT Act, an intermediary would not face any legal action for any third-party information, data, or communication link is posted as long as it followed Sections 79(2) and (3).

The court based this decision on *Shreya Singhal v. Union of India*⁴, which ruled that a social media marketplace's obligation to remove content emerges only if a court order or a notification from a government agency based upon the grounds listed under Article 19(2) of the Indian Constitution exists. As a result, claims from DSCs were insufficient to trigger a takedown obligation without a supporting court order or government notice.

4. Whether e-commerce marketplaces are infringing on the DSCs' contractual relationships with their distributors/direct sellers?

The Division Bench determined that the tortious interference to breach of contract requires the e-commerce marketplaces and DSCs to first enter into a contract. The fact that DSCs had lost the power to regulate future sales after the first sale, and e-commerce marketplaces were not a direct participant in the sales process was also taken into account by the Division Bench. It has no say over who is picked as a customer, how transactions are started, or what data is displayed. The mere fact that these e-Commerce marketplaces are aware of the DSCs' Code of Ethics and the contractual obligations imposed on its distributors or Direct Sellers by such DSCs is insufficient to establish tortious interference. In this case, the Division Bench found that whether the marketplaces created a contract violation between the DSCs and their sellers/distributors had to be proven, not just assumed.

CONCLUDING REMARKS

The Division Bench effectively overturned the order laid by Single Judge in favor of e-commerce marketplaces. This comes at a time when all the courts across the nation, as well as the Government, are severely enforcing intermediaries' due diligence responsibilities. The Single Judge was mindful of the DSCs' interests while ignoring the negative impact that an injunction would have on online platforms, affecting the consumers' right to purchase. The interests of the customers should be given paramount importance, but at the same time, the proper balance must be maintained between the legal rights of the Direct Selling Corporations, e-Commerce marketplaces, and the customers.

Despite the Division Bench's ruling, the E-commerce marketplaces must consider listing the name, address, and other third-party contact information besides the commodities offered to sell. This would enable the e-Commerce marketplace as an actual operating intermediary as well as facilitate the customers in determining the authenticity of the goods. Along with that, these e-Commerce marketplaces must also consider implementing a system that verifies whether third-party sellers or distributors are authorized to offer the sale of commodities, and rate them based upon their adherence to the rules. This will enable customers to make better-informed decisions before purchasing such items and safeguard their interests.

[1] Amway India Enterprises Pvt. Ltd. v. IMG Technologies Pvt. Ltd., 2019 SCC OnLine Del 9061

[2] Amazon Seller Services Pvt. Ltd. v. Amway India Enterprises Pvt. Ltd., 2020 SCC OnLine Del 454

[3] Kapil Wadhwa v. Samsung Electronics Company Limited., MIPR 2012 (3) 0191

[4] Shreya Singhal v. Union of India., (2015) 5 SCC 1

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