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Navigating the Intricate Web of Counterfeiting of Goods in India's E-Commerce Arena

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ABSTRACT

The surge in e-commerce platforms has unfortunately facilitated the proliferation of counterfeits, impacting not only legitimate businesses and brands but also posing safety risks to unsuspecting consumers. These fake goods are often of inferior quality and may lack essential safety features, jeopardizing consumer well-being. India has a robust legal framework to address counterfeiting. However, the judicial stance on e-commerce counterfeiting is still evolving. Courts grapple with issues like determining the platform's liability and the effectiveness of takedown procedures. While some judgments have emphasized stricter liability for platforms, others have taken a more nuanced approach. This article delves deeper into the existing legal framework and judicial pronouncements, analyzing their effectiveness in combating e-commerce counterfeiting. It explores potential solutions and emphasizes the need for collaborative efforts by e-commerce platforms, brands, law enforcement agencies, and the judiciary to create a safer and more trustworthy online marketplace in India.

Keywords: E-Commerce, Counterfeiting, Intermediary Liability, IPR Infringement.

I. INTRODUCTION

The ubiquitous impact of information and communication technology has profoundly transformed myriad aspects of human existence, with commerce being no exception to this sweeping transformation. India, a nation once bound by the shackles of limited connectivity, now finds itself at the precipice of a digital renaissance, marked by widespread internet accessibility, predominantly through the omnipresent medium of mobile devices, coupled with a dramatic reduction in internet usage costs. This seismic shift has indelibly reshaped the urban landscape, ushering in an era of unparalleled convenience for the exchange of goods and services via the vast expanse of the internet.

In its most fundamental form, e-commerce can be encapsulated as the buying and selling of

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goods or services over electronic systems, such as the Internet and other computer networks. However, the Asia Pacific Economic Cooperation (APEC) has expanded the scope of this definition, encompassing any economic activity that harnesses the synergy of electronic communications and information processing technologies.³

Tracing its origins back to the 1960s, with the advent of Electronic Data Interchange, e-commerce has embarked on a trajectory of exponential growth, defying the boundaries of conventional commerce. It would be a gross understatement to assert that India is merely a force to be reckoned with in the e-commerce sphere; rather, it is a veritable powerhouse, its influence radiating across the global digital marketplace, with expectations of unprecedented expansion on the horizon.⁴

According to the E-Commerce Industry Report (August 2023), the Indian e-commerce sector is poised for a staggering growth trajectory, projected to surge at a Compound Annual Growth Rate (CAGR) of 27%, culminating in a monumental valuation of US\$ 163 billion by the year 2026.⁵

Recognizing the pivotal role of e-commerce in shaping India's economic landscape, the specter of counterfeit products looms large, a glaring issue that demands unwavering attention and decisive action. Nations across the globe have endeavored to combat this scourge, addressing loopholes and enacting legislation to stem the tide of counterfeit goods, and India, as a signatory to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, is duty-bound to provide legal recourse in cases of intellectual property infringement.⁶ However, a paramount question arises: Can e-commerce platforms be held liable for the sale of counterfeit or fake products sold by third-party sellers on their websites?

In a recent judgment that reverberated across the legal landscape, the Delhi High Court made a poignant observation: "An e-commerce platform cannot become a haven for infringers. Men are not angels, and where easy money is evidently visible, the conscience at times takes a nap."⁷

³ A. Didar Singh, "*Electronic Commerce: Issues for the South*" Trade-related Agenda, Development and Equity, Working Paper, South Centre, October 1999, p. 4

⁴ Mohd. Danish, Trade Promotion Council of India, "*India, the next powerhouse of global e-commerce?*" (Oct 11, 2023), <https://www.tpci.in/indiabusiness/trade/blogs/india-the-next-powerhouse-of-global-e-commerce/>.

⁵ Indian Brand Equity Foundation (IBEF), "*E-Commerce Industry in India*", (Aug. 2023), <https://www.ibef.org/industry/ecommerce> (Last Updated Feb 2024).

⁶ Ruchi Singh, Rommel Pandit, Parmita Nandy Gupta, Sonu Shaji, World Trade Mark Review, "*India: Bolstered anti-counterfeiting regime champions stricter market regulation and enhanced consumer awareness*" (Sept. 29, 2023), <https://www.worldtrademarkreview.com/guide/anti-counterfeiting-and-online-brand-enforcement/2023/article/india-bolstered-anti-counterfeiting-regime-champions-stricter-market-regulation-and-enhanced-consumer-awareness>

⁷ Shruti Kakkar, The Hindustan Times, "HC: E-commerce platform cannot be haven for infringers, liable for selling fake products" (Jan. 07, 2024), <https://www.hindustantimes.com/india-news/hc-e-commerce-platform-cannot-be-haven-for-infringers-liable-for-selling-fake-products-101704567826463.html>.

In light of this profound statement, this research paper delves into the intricate tapestry of liability that e-commerce platforms bear concerning counterfeit products. Additionally, it sheds light on the myriad drawbacks and disadvantages inflicted upon both consumers and businesses. Lastly, it illuminates the concept of intermediary as prescribed under the Information and Technology Act, 2000, while simultaneously exploring the judicial stance on these pivotal issues.

II. UNDERSTANDING INTELLECTUAL PROPERTY RIGHTS IN THE DIGITAL E-COMMERCE MARKETPLACE

The Oxford Dictionary, that hallowed repository of linguistic wisdom, defines intellectual property as "an idea, a design, etc. created by someone that the law prohibits others from replicating."⁸ This definition encapsulates the very essence of intellectual property as intangible assets birthed from the fertile wellspring of human creativity and innovation. In the burgeoning realm of e-commerce, where buyers and sellers converge on virtual platforms, two distinct aspects of intellectual property converge to create a unique dynamic.

Firstly, there are the intellectual property rights associated with the products being sold, which typically reside with and belong to the vendor, the creator, or the rightful owner of the intellectual property. Secondly, the digital platform itself possesses inherent intellectual property rights, a tapestry of legal protections woven to safeguard its unique identity and competitive edge in the crowded online marketplace.

The Indian Penal Code of 1860, that venerable tome of jurisprudence, elucidates the term "counterfeit" in Section 28, defining it as follows: "A person is deemed to counterfeit when they cause one thing to resemble another, with the intent to deceive through that resemblance, or knowing that deception is likely to occur."⁹ This definition captures the essence of counterfeiting as a deliberate act of deception, a conscious effort to mislead through the creation of a fraudulent facsimile.

To illustrate this concept, let us consider a scenario where a seller advertises branded footwear on platforms such as Amazon or Flipkart. In this instance, the trademark associated with that particular shoe brand belongs to the seller or vendor, the rightful owner of the intellectual property. Simultaneously, the digital platform itself holds certain property rights, which could encompass patents, trademarks, or copyrights, collectively serving to enhance its distinctiveness

⁸ "Intellectual property", Oxford Learner's Dictionaries, <https://www.oxfordlearnersdictionaries.com/definition/english/intellectual-property>.

⁹ The Indian Penal Code, §28, No. 45, Acts of Parliament, 1860 (India).

in the crowded and highly competitive online marketplace.¹⁰ It would, therefore, be fair to assume that the relationship between intellectual property rights (IPR) and e-commerce is multifaceted and mutually beneficial, a symbiotic interplay that fosters innovation and safeguards the interests of all stakeholders.

III. THE ILL EFFECTS OF COUNTERFEITING

While e-commerce is a flourishing and continuously evolving business sector that offers abundant revenue prospects, intellectual property infringement, especially counterfeiting, remains a grave concern for the majority of e-commerce enterprises. Estimations may vary, but the annual sales of counterfeit products range between a staggering \$1.7 trillion and an astronomical \$4.5 trillion, rendering the counterfeiting industry one of the world's largest economies, a behemoth that casts a dark shadow over legitimate commerce. Moreover, this scourge accounts for the loss of a staggering 2.5 million jobs globally, a sobering statistic that underscores the far-reaching and devastating impact of counterfeiting on the global workforce.¹¹

Yet, the ramifications of counterfeiting extend far beyond the realms of mere financial loss. It would be accurate to assert that the tentacles of this insidious practice permeate deep into the fabric of consumer trust and brand equity.¹² For instance, when a consumer, buoyed by the expectation of acquiring a genuine product, unwittingly purchases a counterfeit item, the substandard quality of these illicit goods breeds dissatisfaction, ultimately eroding the brand value associated with the legitimate product. Hence, despite businesses investing substantial time, resources, and relentless effort in cultivating trust and fostering enduring relationships with their customers, counterfeits undermine this very foundation, linking unpleasant experiences with authentic merchandise, thereby tarnishing the brand's hard-earned reputation.

Furthermore, legitimate producers find themselves embroiled in an uphill battle against the nefarious forces of counterfeiting, as counterfeiters saturate the market with inferior knockoffs, ultimately diminishing market share and profitability for genuine manufacturers. Combating this scourge necessitates significant investments in cutting-edge anti-counterfeit technologies, thereby escalating operational costs and potentially impacting the affordability of products for

¹⁰ European Innovation Council and SMEs Executive Agency, European Commission, “*Intellectual Property and E-Commerce in India*”, (June 29, 2023), https://intellectual-property-helpdesk.ec.europa.eu/news-events/news/intellectual-property-and-e-commerce-india-part-2-2023-06-29_en.

¹¹ Keith Goldstein, The Forbes, “The Global Impact of Counterfeiting And Solutions To Stop It”, (Aug. 02, 2020), <https://www.forbes.com/sites/forbesbusinesscouncil/2022/08/02/the-global-impact-of-counterfeiting-and-solutions-to-stop-it/?sh=bd2ded31ca27>.

¹² The Business Standard, “*Counterfeiting, smuggling develop into substantial threat to global economy*” (Dec. 16, 2022), https://www.business-standard.com/article/economy-policy/counterfeiting-smuggling-develop-into-substantial-threat-to-global-economy-122121600599_1.html.

consumers. Lastly, but equally importantly, counterfeits can infiltrate supply chains with insidious ease, making it arduous for merchants and consumers alike to differentiate between genuine and counterfeit products, thereby compromising the integrity of the entire distribution process, a breach that strikes at the very heart of consumer trust and confidence.¹³

IV. IS E-COMMERCE MARKETPLACE AN INTERMEDIARY?

In 2008, a landmark amendment to the Information Technology Act, 2000, ushered in a new era of statutory provisions regarding the liability of intermediaries. As per Section 2(1)(w) of the IT Act, an "intermediary" is defined as "with respect to any particular electronic records, implies any entity that on behalf of another person receives, stores, or transmits that record or provides any service pertaining to that record, encompassing telecom service providers, network service providers, internet service providers, web-hosting service providers, search engines, online payment sites, online-auction sites, online marketplaces, and cyber cafes."¹⁴ Consequently, due to the very nature of their operations, e-commerce platforms are considered intermediaries under this provision, a classification that carries with it a distinct set of legal obligations and responsibilities.

It is noteworthy that the primary rule concerning intermediary responsibility is outlined in Section 79(4) of the IT Act, a pivotal provision that states that intermediaries are not accountable for third-party information hosted by them if their role is confined to merely providing access, and they do not initiate, select, or modify the transmission initiated by the third party. However, to qualify for this exemption from liability, intermediaries must undertake due diligence, a crucial safeguard that ensures accountability and responsible conduct.

Rule 3 of the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules 2021 provides a comprehensive framework for how intermediaries must exercise due diligence. They are obligated to disclose guidelines, publish a privacy policy, and a user agreement that instructs users not to transmit material that violates patents, trademarks, copyrights, or other property rights.¹⁵ This proactive measure aims to establish clear boundaries and expectations for users, fostering a culture of respect for intellectual property rights and deterring potential infringement.

Furthermore, intermediaries shall promptly restrict access to such material upon acquiring

¹³ Ankit Agarwal, ET Retail, "The menace of counterfeiting in FMCG Industry & its detrimental impacts on consumers, business" (Sept. 14, 2023), <https://retail.economictimes.indiatimes.com/blog/the-menace-of-counterfeiting-in-fmcg-industry-its-detrimental-impacts-on-consumers-business/103663107>.

¹⁴ The Information and Technology Act, § 2(w), No. 21, Acts of Parliament, 2000 (India).

¹⁵ The Information and Technology Act, §79(4), No. 21, Acts of Parliament, 2000 (India).

knowledge or receiving complaints, demonstrating a commitment to swift action and responsible conduct in the face of potential infringement. The intermediary must also clearly display the Grievance Officer's name and contact information, as well as provide a readily accessible method for users to report violations, empowering the user community to actively participate in the oversight and enforcement process.

In a laudable effort to bolster accountability and transparency, the amendment also requires the Central Government to establish a Grievance Appellate Committee within three months, a dedicated body that would allow aggrieved citizens to challenge decisions issued by the Grievance Officer. This appellate mechanism strives to handle appeals expeditiously, typically within a period of 30 days from receipt, ensuring that concerns are addressed promptly and due process is upheld.¹⁶

However, it is paramount to underscore that under Section 79(3) of the said Act, intermediaries found to aid in unlawful acts or fail to remove or restrict access to such illegal content despite receiving actual knowledge will be held liable, a provision that underscores the gravity of their responsibilities and the consequences of dereliction.¹⁷

A bare perusal of these statutory requirements showcases the commitment to enhance accountability and ensure swift action against violations, reinforcing the legal framework governing intermediary liability in the context of e-commerce platforms. However, critics have voiced their concerns, viewing these provisions as legal "subsidies" that unduly benefit e-commerce companies, enabling rapid scalability while potentially compromising rigorous legal compliance, a perspective that warrants careful consideration and balanced discourse.

V. THE JUDICIAL INTERPRETATION

One of the most significant legal precedents concerning the accountability of internet intermediaries for copyright infringement was the landmark case of *Super Cassettes Industries Ltd. vs. Myspace Inc.*¹⁸ In this pivotal legal battle, the court emphasized that to be shielded under section 79 of the Information and Technology Act, 2000, intermediaries must not be engaged in initiating transmission, selecting recipients, or altering information, and they must adhere to the due diligence provisions as delineated under section 79(2)(c) of the Information and Technology Act 2000, read in conjunction with Rule 3 of the Information Technology (Intermediary Guidelines) Rules, 2011.¹⁹ This ruling established a clear set of guidelines and

¹⁶ Rule 3 of the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules 2021.

¹⁷ The Information and Technology Act, §79(3), No. 21, Acts of Parliament, 2000 (India).

¹⁸ *Super Cassettes Industries Ltd. vs. Myspace Inc.* (2011) 48 PTC 49 (India).

¹⁹ Rule 3 of the Information Technology (Intermediary Guidelines) Rules, 2011.

expectations for intermediaries, defining the boundaries within which they could operate and claim the protection afforded by the safe harbor provisions.

In a further effort to reinforce the commitment to consumer protection, the Delhi High Court, in the case of *Luxottica Group SPA vs. Mify Solutions (P) Ltd.*²⁰, directed the defendant to disclose comprehensive seller information on its website, obtain certificates authenticating product genuineness from sellers, and promptly remove listings upon receiving notification of counterfeit products. This landmark decision was in compliance with the Information Technology (Intermediaries Guidelines) Rules of 2011, underscoring the judiciary's resolute stance on upholding consumer rights and combating the scourge of counterfeiting in the digital realm.

However, the judicial stance underwent a perceptible shift in its approach, a paradigm shift that was evident in the case of *Kent Systems Ltd. vs. Amit Kotak*²¹. Herein, the Court made a profound observation that if intermediaries were required to scrutinize all information uploaded by third-party sellers to determine whether it constitutes an infringement of intellectual property rights, then the same would impose a substantial burden on them, effectively transforming intermediaries into entities tasked with examining whether any information hosted by the platform constitutes an infringement. This observation acknowledged the practical limitations and operational challenges that intermediaries face, recognizing the need for a balanced approach that does not unduly encumber their operations or stifle innovation.²²

Consequently, in the case of *Amazon vs. Amway*, while exempting Amazon from intermediary liability, the Court held that there can be no distinction between passive and active intermediaries under Section 79 of the Information and Technology Act, 2000. This ruling effectively established a level playing field, recognizing that intermediaries play a vital role in facilitating e-commerce transactions, regardless of the extent of their involvement in the process. Furthermore, the Court observed that Amazon could not be denied the status of an intermediary merely on the grounds that it provides logistical support and other services to its third-party sellers, acknowledging the evolving nature of e-commerce platforms and their multifaceted roles in the digital marketplace.

Moreover, the most recent pronouncement in *PUMA SE vs. India Mart Intermesh Ltd.*²³ is

²⁰ *Luxottica Group SPA vs. Mify Solutions (P) Ltd.* (2018) 254 DLT 472 (India).

²¹ *Kent RO Systems Ltd. vs. Amit Kotak* (2017) 240 DLT 3 (India).

²² Nilanshu Shekhart & Rishabh Manocha, SCC Blog, "Implementation of IP vis-à-vis IT Law and E-Commerce in India" (May 25, 2023), <https://www.sconline.com/blog/post/2023/05/25/implementation-of-ip-vis-vis-it-law-and-e-commerce-in-india/>.

²³ *PUMA SE vs. India Mart Intermesh Ltd* 2024 SCC On Line Del 17 (India).

noteworthy in highlighting the need to strike a delicate balance between the safe harbor protection doctrine and the imperative of intellectual property infringement prevention. In this case, while granting an injunction against India Mart, prohibiting them from using the "PUMA" Trademark as an option in its drop-down menu, the Hon'ble Bench relied on the precedent established in the landmark case of Google LLC vs. DRS Logistics (Private) Limited.²⁴ This decision emphasized that the definition of "use of a mark" under the Trade Marks Act 1999 extended beyond mere visual representation to encompass any form associated with commodities. Consequently, the use of "PUMA" in the drop-down menu in the present case constituted "use" under the Trade Marks Act 1999, a ruling that set a precedent for the interpretation of trademark infringement in the digital domain.

Furthermore, the Court went on to stress that including the plaintiff's trademark in the drop-down selection increased the likelihood of consumer fraud by allowing counterfeiters to present their illicit products as authentic, a grave concern that strikes at the heart of consumer trust and market integrity. It was determined that such usage had the potential to unfairly benefit the mark "in a manner which would be detrimental to its distinctive character and repute," underscoring the court's commitment to safeguarding the intellectual property rights of legitimate brand owners and upholding the principles of fair competition.

In light of this landmark ruling, it would not be incorrect to assume that this decision might precipitate a paradigm shift in the monitoring and oversight of content on online marketplaces, potentially resulting in an escalation of costs and impacting user-generated content. Additionally, it could catalyze a fundamental restructuring of the relationship between platforms and vendors, compelling platforms to exert greater control over merchants and their activities, a development that could have far-reaching implications for the dynamics of the e-commerce ecosystem.

Furthermore, this ruling may serve as a clarion call, raising awareness of the pervasive threat of counterfeiting and galvanizing platforms, sellers, and customers to collectively maintain higher levels of product authenticity.²⁵ It represents a pivotal stride towards the notion that courts must carefully apply the safe harbor protection doctrine to strike a judicious balance between the rights and interests of intermediaries and consumers, with the overarching goal of finding a fair and equitable solution to the myriad issues surrounding marketplace e-commerce entities in

²⁴ Google LLC vs. DRS Logistics (Private) Limited FAO(OS)(COMM) 2/2022(India).

²⁵ Neha Iyer, World Trade Review, "**Delhi High Court restrains Indiamart from including PUMA marks in drop-down menu search options**" (Jan.31,2024), <https://www.worldtrademarkreview.com/article/delhi-high-court-restrains-indiamart-including-puma-marks-in-drop-down-menu-search-options>.

India.²⁶

VI. CONCLUSION

While the implementation of the Consumer Protection (E-commerce) Rules, 2020 signifies a commendable stride in tackling concerns pertaining to intellectual property rights violations and bolstering consumer safeguards in the burgeoning online marketplace, there remains an urgent necessity for lucidity and refinement within the regulatory framework. The matter of intermediary culpability must be approached with prudence and circumspection, ensuring that e-commerce platforms fulfill their obligations without unreasonably curtailing innovation and impeding the organic growth of the market.

²⁶ Sumanthi Chandrashekar, Obhan & Associates, “Online marketplaces and intermediary liability: New rules of the game” (Nov. 21, 2018), <https://www.obhanandassociates.com/blog/online-marketplaces-and-intermediary-liability-new-rules-of-the-game/>.