

## Legal Issues in ‘IP Exhaustion’

Issue: Does Re-Sale of Goods by Distributors on E-Commerce Platforms Amount to Trademark Infringement?

## Relevant Legal Provisions

### ❖ Section 30(3), Trade Marks Act, 1999 –

*“Where the goods bearing a registered trade mark are lawfully acquired by a person, the sale of the goods in the market or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade by reason only of;*

- a. the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or*
- a. the goods having been put on the market under the registered trade mark by the proprietor or with his consent”.*

## Relevant Legal Provisions (Contd.)

### ❖ Section 19, Sale of Goods Act, 1930 –

*Property passes when intended to pass.—*

- a. Where there is a contract for the sale of specific or ascertained goods the property in them is transferred to the buyer at such time as the parties to the contract intend it to be transferred.*
- b. For the purpose of ascertaining the intention of the parties regard shall be had to the terms of the contract, the conduct of the parties and the circumstances of the case.*
- c. Unless a different intention appears, the rules contained in sections 20 to 24 are rules for ascertaining the intention of the parties as to the time at which the property in the goods is to pass to the buyer.*

## Relevant Judicial Decisions

### ❖ *Kapil Wadhwa v. Samsung Electronics* [2013 (53) PTC 112 (Del)]

- *“Where goods bearing a registered trade mark are put on the market and are lawfully acquired by a person, the sale of the goods in the market by that person is not infringement of the trade mark by reason only of further sale in the market”. And the Principle of International Exhaustion of Rights itself takes away the right of the respondents to control the further sale and further distribution of the goods.”*
- *“Not infringement of a trade by reason only of should read 'Not infringement of a trade mark by reason only of'. The reason is obvious. After being lawfully acquired by a person of goods bearing a registered trade mark, the further sale may be debatable as infringement of a trade mark, but there can be no further debate whether there is an infringement of a trade.....”*

4

## Relevant Judicial Decisions (Contd.)

- ❖ ***Amazon Seller Services Pvt. Ltd. v. Amway India Enterprises Pvt. Ltd.* [2020 (81) PTC 399 (Del)]**
  - *“There is merit in the contention of Amazon that by permitting private entities like Amway to restrict downstream distribution of genuine goods, by enforcing contractual stipulations against third parties, the judgment of the learned Single Judge recognizes a monopoly that can be exercised in perpetuity. There is also force in the contention that this runs contrary to the legal position explained in Kapil Wadhwa v. Samsung Electronics (supra).”*
  - *“In the first place, the tort of inducement to breach of contract necessitates that there be a contract in the first place between the online platforms and the DSEs. The mere fact that the online platforms may have knowledge of the Code of Ethics of the DSEs, and the contractual stipulation imposed by such...”*

5

## Relevant Judicial Decisions (Contd.)

- ❖ *Amazon Seller Services Pvt. Ltd. v. Amway India Enterprises Pvt. Ltd.* [2020 (81) PTC 399 (Del)]  
[Contd.]
  - “...DSEs on their distributors, is insufficient to lay a claim of tortious interference. It was incumbent on the part of the Plaintiffs to demonstrate active efforts on the part of or contracts entered into by the Appellants/Defendants to make a viable case for tort of inducement to breach of contract...”

## Relevant Judicial Decisions (Contd.)

- ❖ ***Corporate Office At v. Also At* [CS (Comm) No. 2480/2019, Delhi District Judge (Commercial Court)-06, December 1, 2021]**
- *“...As the doctrine of exhaustion goes, in the product distribution chain, a trademark right is typically exhausted by the first sale of good or placing the same in market. The trademark owner or others with the consent of the owner have no right to prevent or prohibit others from reselling or using the product. The basic principle of this doctrine is that once the right holder has been able to obtain economic return from the first sale or placing in the market, the purchaser or transferee of the goods or services is entitled to use or dispose it off without any further restriction. The doctrine of exhaustion focuses on properly balancing the interests of the trademark owners vis-à-vis the product owners. Exhaustion of rights is linked to the distribution right.”*

## Relevant Judicial Decisions (Contd.)

- ❖ ***Corporate Office At v. Also At* [CS (Comm) No. 2480/2019, Delhi District Judge (Commercial Court)-06, December 1, 2021] [Contd.]**
- “...A plain and meaningful reading of the plaint leaves no room for the doubt. There is clear averment in the plaint about various categories of goods. One of the such categories is 'genuine goods' but being sold in a 'unlawful' manner as the plaintiff has not consented to sale of such goods on defendant no. 1's platform. The scheme of section 30(3) of the TM Act, 1999 leaves no scope for any such stipulation and the same is therefore non-est in the eyes of the law. The objection is thus bereft of any legal force as there can be no estoppel against the law.”
- “The right to distribute objects means that such objects is released by or with the consent of the owner as a result of the transfer of ownership. However, the owner does not lose all extensions of the trademark right. The bond between the trademark and the product cannot be severed.”

8

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## Relevant Judicial Decisions (Contd.)

- ❖ ***Corporate Office At v. Also At* [CS (Comm) No. 2480/2019, Delhi District Judge (Commercial Court)-06, December 1, 2021] [Contd.]**
- *“.... If a legally obtained product damages a trademark's intrinsic values, including distinctiveness and goodwill, during reprocessing and reselling, it may still infringe the owner's exclusive right to use the trademark.”*
- *“The right to distribute objects means that such objects is released by or with the consent of the owner as a result of the transfer of ownership. However, the owner does not lose all extensions of the trademark right.*
- 9 *The bond between the trademark and the product cannot be severed. If a legally obtained product damages a trademark's intrinsic values, including distinctiveness and goodwill, during reprocessing and reselling, it may still infringe the owner's exclusive right to use the trademark.”*

# THANK YOU!

## Questions?

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10

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