

# IP Hotline

October 29, 2014

## DELHI HC: A VIRTUAL PRESENCE MAY MEAN 'CARRYING ON BUSINESS' FOR JURISDICTION IN IP CASES

- Delhi High Court holds that a website selling goods online amounts to "carrying on business" by the Plaintiff under the Copyright Act, 1957 and Trade Marks Act, 1999.
- Plaintiff's having virtual but not physical presence may now institute a suit for copyright or trade mark infringement.
- The Delhi High Court observed that the availability of goods through a website at a particular place is virtually the same thing as a seller having a physical shop in the same place.

### BACKGROUND

A Division Bench of the Delhi High Court ("DB") in the case of *World Wrestling Entertainment, Inc. v. Ms Reshma Collection & Ors.*<sup>1</sup> in an appeal order, held that the online sale of merchandise to customers in Delhi by *World Wrestling Entertainment, Inc* amounted to 'carrying on business' in Delhi, under Section 62(2)<sup>2</sup> of the Copyright Act, 1957 and Section 134(2)<sup>3</sup> of the Trade Marks Act, 1999. The DB held that the WWE carried on business' in Delhi merely due to sales effected through the Appellant's website accessed / accessible in Delhi, thus conferring jurisdiction on the Delhi High Court ("Court") to try a suit for trademark and copyright infringement.

### FACTS

*World Wrestling Entertainment, Inc.* ("Appellant") is a company incorporated under the laws of Delaware, USA and is, among other activities, engaged in the development, production and marketing of television programming, pay-per-view programming, live events and licensing and sale of branded consumer products featuring its well-known World Wrestling Entertainment ("WWE") brand. The Appellant is the owner of the copyright of the pictorial representations of WWE and various WWE wrestlers and also has trademark registrations in respect of various WWE wrestlers and slogans. The Appellant has licenses to distribute products and memorabilia including apparel, posters, calendars, fact books, sunglasses, water bottles, key-rings, DVDs etc. The Appellant licenses its trademarks and images / characters to various third parties for use on merchandise in a wide range of products.

The Appellant in a suit for infringement ("Suit") alleged that the *Ms Reshma Collection & Ors.* ("Respondents"), who are based in Mumbai, are engaged in the business of manufacture and sale of various forms of counterfeit garments and apparel, such as t-shirts, wrist bands, which are reproductions of the Appellant's talent. It was further alleged that the Respondents were infringing the Appellant's trademarks and that the merchandise sold by the Respondents bore the images of WWE wrestlers and characters displayed prominently.

### ORDER OF THE SINGLE JUDGE BENCH

In order to claim jurisdiction under Section 134(2) of the Trade Marks Act, 1999 ("TM Act") and Section 62(2) of the Copyright Act, 1957 ("Copyright Act"), the Appellant would need to establish that it actually and voluntarily resides or carries on business or personally works for gain within the jurisdiction of the Court.

The Appellant pleaded that the Court had jurisdiction to entertain and try the Suit based on the following three facts.

- The Appellant's programmes, consisting of its various characters including John Cena, Undertaker, Triple H, Randy Orton and Batista are broadcast at Delhi;
- The Appellant's products, such as its merchandising goods and books, are available within Delhi;
- The Appellant's goods and services are sold to consumers in Delhi through its websites which can be accessed and operated from all over the country, including from Delhi.

The facts as disclosed in the judgment are silent on whether sales were made by the Appellant exclusively in Delhi, or in other territories in India in addition to Delhi. Consequently, as a result of the Appellant's business model of selling products through their website, it can be presumed that products would have been sold in other cities in India in addition to Delhi.

The Respondents filed an application for return of plaint, on the ground that the Court did not have jurisdiction to entertain the Suit.

The Single Judge dismissed the Suit for lack of jurisdiction in Delhi. The Single judge:

- relied on the decision of *Dhodha House v. S.K. Maingi*<sup>4</sup> ("Dhodha House Case") of the Supreme Court of India ("Supreme Court") wherein the Supreme Court had interpreted the phrase 'carries on business' as mentioned under Section 134(2) of the TM Act and Section 62(2) of the Copyright Act, to mean that an 'essential part' of the

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plaintiff's business should exist at the place where he claims to be carrying on his business either on his own or through an 'exclusive agent'.

- observed while making reference to the decision of *Bhagwan Governdhandas Kedia v. Girdharilal Parshottamdas & Co.*<sup>5</sup> ("**Kedia Case**") that the traditional modes of determining time and where the contract was made or place of business, as applicable to communications over telephone and fax, would be applicable to e-commerce models as well.
- observed that whenever there was a legislative intent to amend laws to bring the concept of 'new media', Parliament had gone ahead and brought in appropriate amendments to the statutes. The Single Judge concluded / held that Parliament had consciously not amended the Copyright Act and TM Act to make provisions for 'new media'. Thus, the basic legal principles of trade and commerce applicable to the 'old media' would be relevant for 'new media' as well.

Consequently, sale of WWE products and provision of services in Delhi would not by itself confer jurisdiction for the purpose of the TM Act or Copyright Act. Therefore, the Single Judge held that the Appellant did not carry on the business within the territorial jurisdiction of the Court.

Appellant appealed.

DECISION OF THE DIVISION BENCH

'Carries on business'

The DB while examining the decision of the Single Judge stated that the entire case rests on the meaning of 'carries on business' under Section 134(2) of the TM Act and Section 62(2) of the Copyright Act.

DB examined the *Dhodha House Case*.

In the *Dhodha House Case*, the Supreme Court stated that for the purpose of 'carrying on business', the presence of a man at a place is not necessary. Such a phrase would mean having an interest in a business at that place, a voice in what is done, a share in the gain or loss and some control there over. The Supreme Court further stated that the following three conditions should be satisfied for the purpose of establishing that a plaintiff is 'carrying on a business' within the territorial limits of the court:

- *The agent must be a special agent who attends exclusively to the business of the principal and carries it on in the name of the principal and not a general agent who does business for any one that pays him.*
- *The person acting as agent must be an agent in the strict sense of the term.*
- *To constitute 'carrying on business' at a certain place, the essential part of the business must take place in that place.*

The Supreme Court had cautioned that although the expression 'carries on business' has a very wide meaning, it is necessary that the three conditions specified should be satisfied.

The Appellant however contended that *Dhodha House Case* would not be applicable to the present facts as in this decision web-based business models, i.e. new media, were not considered by the Supreme Court.

The DB made the following observations:

- With respect to the conditions laid down in the *Dhodha House Case*, the first two conditions will not apply to the Appellant as they relate to agents and it is an admitted position that the Appellant does not have any agents in Delhi.
- With respect to the third condition in the backdrop of the internet, the Court examined the question – When a transaction takes place over the internet, where is the contract concluded? In this case, it was presumed that web server of the Appellant's website was not located in Delhi; however, if a customer were to purchase an article from the website, the customer would access the Appellant's website on his / her computer in Delhi. Subsequently, the payment is made through a debit / credit card / cash card from Delhi and ultimately the goods are delivered to the customer in Delhi. Thus, the question before the Court was in this nature of a transaction, does the essential part of the business occur in Delhi?
- With respect to the above question, the DB examined the *Kedia Case* where the Supreme Court made a comparison between contracts concluded over the post and telegraph on one hand, and contracts concluded over the telephone on the other hand in relation to a determination for where a part cause of action had arose. The Supreme Court observed that the general rule is that the contract is complete when the offeror receives intimation that his offer has been accepted and an exception has been carved out under the Indian Contract Act, 1872 for contracts negotiated by postal communication or to telegrams. The Supreme Court observed that in case of an oral contract concluded on a telephone, negotiations are concluded by the parties instantaneously. In such a case, communication of acceptance and acceptance of the offer is also simultaneous. Thus, in case of a telephonic conversation, a contract is concluded where the acceptance is communicated.
- The Court applied the above principles to transactions that occur on the internet such as in the present case. The Court held that the display of goods on the Appellant's website is an invitation to offer, just as a menu in a restaurant. The invitation, if accepted by a customer in Delhi, becomes an offer made by the customer in Delhi for purchasing the goods on display. Subsequently, when, through the mode of the software and the browser, the transaction is confirmed and payment is made to the Appellant through its website, the Appellant has accepted the offer of the customer at Delhi. Since such a transaction takes place instantaneously, acceptance by the Appellant is also instantly communicated to its customer through the internet in Delhi, thereby giving rise to part of the cause of action arising in Delhi. The Court stated that it was not concerned with the question of cause of action between the Appellant and its customers in Delhi, as the Respondents in the present case are not the customers of the Appellant and they are all residents of Mumbai.
- Taking a cue from the *Kedia Case*, the DB held that as the transactions in the present case were being concluded in Delhi, it amounted to an essential part of the business being carried out in Delhi. The Court also observed that "*owing to the advancements in technology and rapid growth of new models of conducting business over the internet, it is possible for an entity to have a virtual presence in a place which is located at a distance from the place*

where it has a physical presence. The availability of transactions through the website at a particular place is virtually the same thing as a seller having shops in that place in the physical world.”

## ANALYSIS

Though this decision appears progressive, it raises several legal and practical issues.

It appears that the conclusion of DB is not consistent with the interpretation of the law and decisions of the Supreme Court in the *Dhodha House Case* and *Kedia Case*.

The DB relied on the *Kedia Case*, wherein the Supreme Court had examined where an oral contract negotiated through a telephone would be concluded in comparison to a contract concluded via post or telegraphs in order to determine where the part cause of action arose. This case examined the "cause of action" issue. However, DB has used this case in relation to 'carried on business' concept when 'cause of action' and 'carried on business' are different for the purpose of litigation. By this logic when the Appellant is located in one place, accepts telephone orders from customers in other places (without physical presence) can also be considered to 'carry on business' in such other places.

Under Section 20<sup>6</sup> of Code of Civil Procedure, 1908 (“CPC”) a suit may be instituted in a court within the local limits of whose jurisdiction, the defendant resides, or carries on business or personally works for gain or where the cause of action, wholly or in part, arises. The Copyright Act added a special provision to help authors to initiate action at place convenient to them so that they don't incur higher cost in enforcing their rights. Later, this provision was extended to trademark owners when the new TM Act was introduced in 2003.

The present decision of the DB, however, takes the jurisdiction issue to next level. The Court in the case of *Banyan Tree Holdings (P) Ltd. V. A. Murali Krishna Reddy and Another*<sup>7</sup>, examined whether a cause of action arises under Section 20(3) CPC based on the fact that the website of the defendant was accessible in Delhi and was used for soliciting business in Delhi. The Court held that it would have to be *prima facie* shown that the nature of the activity indulged in by the defendant by the use of the website was with an intention to conclude a commercial transaction with the website user and that the specific targeting of the forum state by the defendant resulted in an injury or harm to the plaintiff within the forum state.

The Court had set a high bar in this case to prove that a cause of action occurred within jurisdiction of a court based on the accessibility of a website to prevent forum shopping. A similar bar could have been adopted by the DB to conclude whether the Appellant 'carried on business' in Delhi, or was merely attempting to forum shop.

Further, another intriguing point is that in the *Dhodha House Case*, the Supreme Court had laid down three conditions that are to be fulfilled for the purpose of establishing 'carrying on business' under Section 134(2) of the TM Act and Section 62(2) of the Copyright Act. DB acknowledged this fact but however held that the first two conditions were not applicable, as in the present fact scenario the Appellant did not have any agency in Delhi and only the third condition was applicable. The DB therefore seems to have erred in applying only the third condition. DB ought not to have applied principles laid down in the *Dhodha House Case* at all rather than applying one condition in isolation to reach its conclusion.

This decision provides almost a pan India presence to such any websites when it comes to invoking territorial jurisdiction of a court in protecting their trademark and copyright and this is clearly contrary to the intention of the legislature. Any law, for its enforcement / application requires certainty, consistency and uniformity and the present ruling seems to violate this fundamental requirement of law.

It will be interesting to see how the Supreme Court will view this conclusion, should this decision be appealed.

— Aaron Kamath, Ajay Chandru, M.S. Ananth & Gowree Gokhale

You can direct your queries or comments to the authors

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<sup>1</sup> FAO (OS) 506/2013 and CM Nos. 17627/2013 & 11006/2013, decided on October 15, 2014.

<sup>2</sup> Section 62 - Jurisdiction of court over matters arising under this Chapter

(1) Every suit or other civil proceeding arising under this Chapter in respect of the infringement of copyright in any work or the infringement of any other right conferred by this Act shall be instituted in the district court having jurisdiction.

(2) For the purpose of sub-section (1), a "district court having jurisdiction" shall, notwithstanding anything contained in the Code of Civil Procedure, 1908 (5 of 1908), or any other law for the time being in force, include a district court within the local limits of whose jurisdiction, at the time of the institution of the suit or other proceeding, the person instituting the suit or other proceeding or, where there are more than one such persons, any of them actually and voluntarily resides or carries on business or personally works for gain.

<sup>3</sup> Section 134 - Suit for infringement, etc., to be instituted before District Court

(1) No suit—

(a) for the infringement of a registered trade mark; or

(b) relating to any right in a registered trade mark; or

(c) for passing off arising out of the use by the defendant of any trade mark which is identical with or deceptively similar to the plaintiff's trade mark, whether registered or unregistered, shall be instituted in any court inferior to a District Court having jurisdiction to try the suit.

(2) For the purpose of clauses (a) and (b) of sub-section (1), a "District Court having jurisdiction" shall, notwithstanding anything contained in the Code of Civil Procedure, 1908 (5 of 1908) or any other law for the time being in force, include a District Court within the local limits of whose jurisdiction, at the time of the institution of the suit or other proceeding, the person instituting the suit or proceeding, or, where there are more than one such persons any of them actually and voluntarily resides or carries on business or personally works for gain.

Explanation.—For the purposes of sub-section (2), "person" includes the registered proprietor and the registered user.

<sup>4</sup> 2006 (9) SCC 41

<sup>5</sup> AIR 1966 SC 543

<sup>6</sup> Section 20. Other suits to be instituted where defendants reside or cause of action arises

Subject to the limitations aforesaid, every suit shall be instituted in Court within the local limits of whose jurisdiction?

(a) the defendant, or each of the defendants where there are more than one, at the time of the commencement of the suit, actually and voluntarily resides, or carries on business, or personally works for gain; or

(b) any of the defendants, where there are more than one, at the time of the commencement of the suit actually and voluntarily resides, or carries on business, or personally works for gain, provided that in such case either the leave of the Court is given, or the defendants who do not reside, or carry on business, or personally work for gain, as aforesaid, acquiesce in such institution; or

(c) the cause of action, wholly or in part, arises.

<sup>7</sup> 2010 (42) PTC 361 (Del)

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