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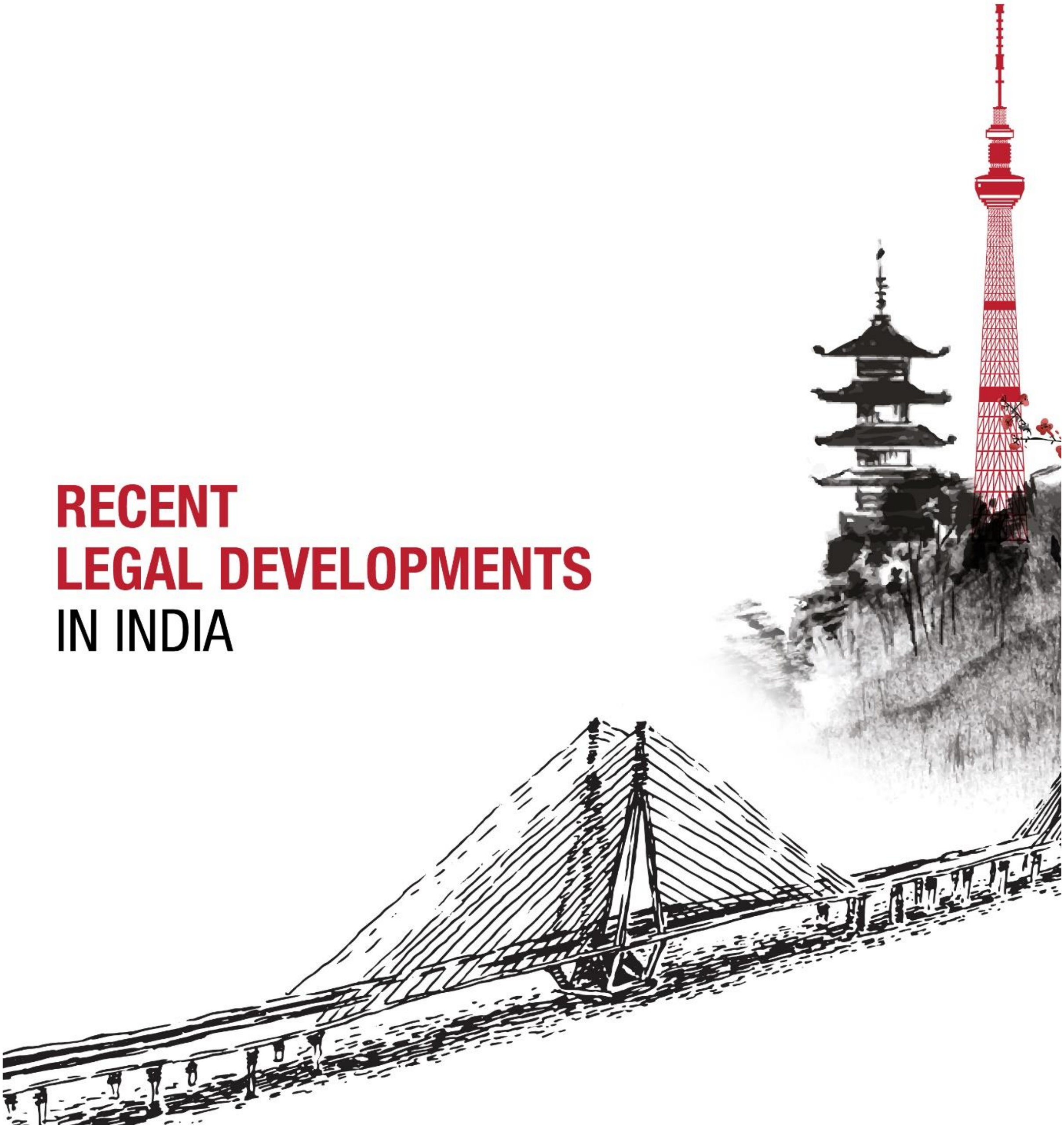
RECENT LEGAL DEVELOPMENTS IN INDIA



The IndusLaw 日本のニュースレター brings you the key regulatory and legal developments in various sectors in India.

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INDUSLAW is a multi-speciality Indian law firm with 17 partners and over 100 lawyers across four offices in Bangalore, Delhi, Hyderabad and Mumbai.

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A. Issuance Of Rupee Denominated Bonds Overseas: Multilateral And Regional Financial Institutions As Investors[1]

1. BACKGROUND

Eligible resident corporates and/or body corporates[2] had earlier been permitted to issue rupee denominated bonds (also commonly known as the *'masala'* bonds) in the overseas market ("**Rupee Bonds**") under India's external commercial borrowing policy pursuant to the terms of A.P. (DIR Series) Circular No.17 dated September 29, 2015 (the "**Original Circular**").[3]

Under the Original Circular, read with A.P. (DIR Series) Circular No.60 dated April 13, 2016 (the "**2016 Circular**"),[4] only residents of countries that are Financial Action Task Force (FATF) compliant jurisdiction were permitted to invest in such Rupee Bonds.

2. REVISED SCOPE

The scope of the Original Circular and the 2016 Circular has now been modified pursuant to A. P. (DIR Series) Circular No.31 dated February 16, 2017 (the "**2017 Circular**"),[5] effective immediately**,** to include new eligible investors in the form of multilateral and regional financial Institutions where India is a member country, to invest in these Rupee Bonds. This modification has been made in order to provide a greater choice of subscriber options to Indian entities issuing such Rupee Bonds.

3. EFFECT OF THE REVISION ON THE RUPEE BOND MARKET

3.1 DIRECT EFFECT

As a result of the revision by the 2017 Circular, multilateral agencies such as the Asian Development Bank (ADB) and the BRICS led New Development Bank (NDB) can now also invest in Rupee Bonds, serving to increase the acceptability of the Indian Rupee in global markets which will lead to a *broad-basing* of the Indian corporate bond market.

3.2 OTHER BENEFITS

Traditionally, low interest rates offered in the international financial markets have made it more cost effective for Indian entities to borrow in the international market. Further, a gradual decline in net inflows from multilateral Institutions[6] has encouraged the government to further facilitate debt contributions from multilateral institutions to maintain a reasonable mix of domestic and external debt.[7]

Coupled with the benefit that Rupee Bonds are issued and settled in Rupees, (thereby allowing Indian entities to diversify their funding sources without bearing currency risk),[8] together with the benefit of listing on the London Stock Exchange,[9] broadening the class of investors to expressly permit

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[1] http://induslaw.com/publications/pdf/alerts-2017/Infolex-Newsalert-Issuance-of-Rupee-Denominated-Bonds-Overseas.pdf?src=website&CTA=Read-More&Date=20-Feb-2017

[2] Refer to paragraph 3 of the "*Master Direction - External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers*" updated as of November 15, 2016 available at https://rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10204#C48 accessed on February 17, 2017

[3] Available at https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10049&Mode=0

[4] Available at https://rbi.org.in/Scripts/NotificationUser.aspx?Id=10350&Mode=0

[5] Available at https://m.rbi.org.in/Scripts/NotificationUser.aspx?Id=10865&Mode=0

[6] For further background, see http://www.livemint.com/Home-Page/RqZufrukbqv0ALHoelrXFI/Is-it-time-for-an-offshore-sovereign-bond-issue.html accessed on February 18, 2017

[7] Ibid

[8] Supra 1

[9] For further background, see http://economictimes.indiatimes.com/markets/bonds/rbi-allows-multilateral-agencies-to-invest-in-masala-bonds/articleshow/57190529.cms accessed on February 18, 2017

multilateral institutions to subscribe for these bonds is a logical step forward.[10]

4. INDUSLAW VIEW

It has been observed that investors often demand higher coupon rates to mitigate currency risk and seemingly low liquidity on Rupee Bonds, which erodes the benefits of seemingly less expensive borrowing by resident Indian entities.

It will take some time before market reaction to the 2017 Circular filters through, but the obvious criteria for measurement will be the extent that multilateral institutions take up the opportunity and subscribe for such bonds.

While the amendments brought in by the 2017 Circular will most definitely give access to a new pool of debt providers for eligible entities to tap into, the beneficiaries of the new policy will inevitably be restricted to large Indian entities with experience of the overseas bond markets.

Considering that all other terms and conditions of issuance in the overseas Rupee Bond market shall remain the same, coupled with the fact that there are no major end use restrictions (except the standard negative list of activities provided in the Original Circular), the revised policy certainly seems to be a step in the right direction in further opening up the Indian debt market to foreign participation, hopefully providing major Indian corporates with more competitive options for debt financing.

B. Clarification On Grandfathering Of Compulsorily Convertible Instruments Under GAAR[11]

The Central Board of Direct Taxes (the "**CBDT**") released a circular on January 27, 2017 (the "**CBDT Circular**") providing certain clarifications on queries received by the CBDT on the implementation of the General Anti-Avoidance Rules (the "**GAAR**").[12]

The CBDT Circular, *inter alia*, provides a clarification on the applicability of the GAAR to income arising from the transfer of investments acquired prior to April 1, 2017.

Specifically, it clarifies whether the term 'investments' includes shares issued by way of bonus issuance and shares resulting from the conversion of instruments compulsorily convertible from one form to another (the "**Clarification on Convertible Instruments**").

A summary of the Clarification on Convertible Instruments is set out below, together with our brief analysis.

1. BACKGROUND

On May 10, 2016, India and Mauritius signed the protocol (the "**Mauritius Amendment Protocol**") amending certain provisions of the Treaty for Avoidance of Double Taxation and Prevention of Fiscal Evasion, 1982 entered into between India and Mauritius.

A significant change brought about by the Mauritius Amendment Protocol is that gains from any sale of shares of an Indian company acquired on or after April 1, 2017 by a person resident in Mauritius will be subject to tax in India. Consequently, gains from alienation of shares acquired prior to April 1, 2017 will continue to not be taxable in India in accordance with the provisions of the treaty prior to the Mauritius Amendment Protocol. Colloquially, such gains would be 'grandfathered'.

Subsequently, on December 30, 2016, India and Singapore signed the protocol (the "**Singapore Amendment Protocol**") amending the Agreement for Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, 1994.

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[10] For further background, see http://www.livemint.com/Money/1ZEYenE7i9Os4dlLQ9MK2N/RBI-moves-to-liberalize-bond-markets.html accessed on February 18, 2017

[11] http://induslaw.com/publications/pdf/alerts-2017/Infolex-Newsalert-Compulsory-Convertible-Instruments-under-GAAR.pdf?src=Website&CTA=Read-More&Date=10-Feb-2017

[12] F.no. 500/43/2016-FT&TR-IV Circular No. 7 of 2017: http://www.incometaxindia.gov.in/Communications/Circular/Circular7_2017.pdf

The Singapore Amendment Protocol brought in the same amendment as the Mauritius Amendment Protocol with respect to the taxation of capital gains, including the grandfathering provisions.

However, there was no clarity on whether the grandfathering provisions under the Mauritius Amendment Protocol and the Singapore Amendment Protocol will extend to convertible shares acquired prior to April 1, 2017.

Further, on June 22, 2016, the CBDT amended Rule 10U(1)(d) of the Income Tax Rules, 1962 (the "**Income Tax Rules**")[13] to provide that the GAAR shall not be applicable to any income arising from the transfer of investments made prior to April 1, 2017.

2. CLARIFICATION

Rule 10U(1)(d) of the Income Tax Rules uses the term 'investments', which is broad in nature and a clarification was sought on the nature of instruments that are covered under the term 'investments'.

In response to a query on whether the GAAR will apply to:

- any bonus shares issued with respect to shares acquired prior to April 1, 2017;

- shares issued after March 31, 2017 upon conversion of compulsorily convertible debentures, compulsorily convertible preference shares, foreign currency convertible bonds and global depository receipts acquired prior to April 1, 2017; and

- shares which are issued consequent to a share split or consolidation of shares acquired prior to April 1, 2017,

the CBDT has clarified that the grandfathering provision under Rule 10U(1)(d) of the Income Tax Rules will be available to investments made prior to April 1, 2017, in respect of instruments compulsorily convertible from one form to another, at terms finalized at the time of issuance of such instruments.

In other words, the provisions of the GAAR will not be applicable to gains from the transfer of compulsorily convertible instruments acquired prior to April 1, 2017, even if such instruments are converted and subsequently sold after April 1, 2017.

Further, gains from alienation of shares brought into existence pursuant to bonus issuance or share split or consolidation of shares acquired prior to April 1, 2017 shall also not be subject to tax.

3. INDUSLAW VIEW

The Clarification on Convertible Instruments has brought about some clarity with respect to applicability of the GAAR to income arising out of transfer of compulsorily convertible instruments acquired prior to April 1, 2017.

However, the clarification mentions that such income shall be exempt from the provisions of the GAAR only if the instruments are converted at terms finalized at the time of issuance of such instruments. If the terms of the instruments are amended at any time after the issuance, the benefit of the grandfathering provision may be lost.

It is also important to note that the CBDT Circular is merely in the form of clarifications to queries received from stakeholders and has not been notified or included in the Income Tax Rules.

This clarification is particularly important considering the ambiguity relating to the extension of grandfathering provisions to gains from alienation of convertible shares under the Mauritius Amendment Protocol and Singapore Amendment Protocol.

In the absence of such clarity, there is still a likelihood of gains pursuant to such conversion being taxed in India.

The Clarification on Convertible Instruments appears to indicate an intent by the Indian Government towards extending the

[13] Notification No. 49/2016: http://incometaxindia.gov.in/news/notification49_2016.pdf

grandfathering provisions to compulsorily convertible instruments acquired prior to April 1, 2017.

Pursuant to the CBDT Circular, it was expected that the Indian Union Budget for the financial year 2017-18 (the "**Budget 2017**") would bring clarity on the grandfathering provision under the Mauritius Amendment Protocol and Singapore Amendment Protocol.

However, the Budget 2017 has not provided any such clarification. If there is a clarification forthcoming with respect to the Mauritius Amendment Protocol and Singapore Amendment Protocol, the grandfathering provisions would not apply to other instruments such as debentures and bonds.

Note further that the CBDT Circular (like Rule 10U(1)(d) of the Income Tax Rules) also applies to such other instruments, including shares.

Compulsorily convertible preference shares are a popular instrument of choice for foreign investors in India. However, in spite of the benefits, due to the uncertainty on grandfathering, many foreign investors considered converting the compulsorily convertible instruments held by them into equity shares before March 31, 2017 in order to continue to avail the tax benefit under the tax treaties.

With the CBDT Circular providing a positive policy inclination, foreign investors are awaiting a clarification on the Mauritius Amendment Protocol and the Singapore Amendment Protocol prior to rolling back their decisions to convert.

There is an expectation that a clarification will soon be issued on the grandfathering provisions under the Mauritius Amendment Protocol and the Singapore Amendment Protocol. Whether this comes prior to March 31, 2017 remains to be seen.

C. The Resurrection of Safe Harbours for Internet Intermediaries in India[14]

1. INTRODUCTION

In its recent judgment in the matter of MySpace Inc. v. Super Cassettes Industries Ltd.[15], a division bench of the Delhi High Court (the "**Court**") comprising of S. Ravindra Bhat and Deepa Sharma, JJ., overturned a single judge's order in the matter of Super Cassettes Industries Ltd. v. MySpace Inc[16].

The Court, while setting aside the single judge's order, re-affirmed and re-established some important legal principles regarding internet intermediary liabilities in the case of claims of copyright infringement under the Copyright Act, 1957 (the "**Copyright Act**"), the scope of safe harbour immunities available to intermediaries under the Information Technology Act, 2002 (the "**IT Act**") and injunctions.

The Court held that free speech is the ethics based on which the internet intermediary industry functions and unwarranted private censorship would be contrary to such integrities and would be wholly unfair to intermediaries.

2. BACKGROUND

In 2008, Super Cassettes Industries Ltd., also known as T-Series, (the "**Plaintiff**") filed a suit against MySpace Inc. and its owner (a division of News Corporation, Fox Interactive Media)

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[14] http://induslaw.com/publications/pdf/alerts-2017/Infolex-Newsalert-The-Resurrection-Of-Safe-Harbours-For-Internet-Intermediaries-In-India-March-2017.pdf?src=Website&CTA=ReadMore&Date=03-Mar-2017

[15] (Myspace Inc. vs. Super Cassettes Industries Ltd., 2016) Myspace Inc. vs. Super Cassettes Industries Ltd. (2016), FAO(OS) 540/2011, C.M. APPL.20174/2011, 13919 & 17996/2015 (High Court of Delhi at New Delhi December 23, 2016).

[16] (Super Cassettes Industries Ltd vs. Myspace Inc., 2011) Super Cassettes Industries Ltd vs. Myspace Inc., IA NO. 15781/2008 & IA NO. 3085/2009 IN CS (OS) NO. 2682/2008 (High Court of Delhi at New Delhi July 29, 2011).

(the "**Defendants**") for infringing their copyright under Section 51[17] of the Copyright Act.

The Plaintiff was engaged in the business of music distribution and film production and claimed to be the owner of the copyright in the collection of several sound recordings, cinematograph films, songs etc. It also claimed to have over 20,000 (twenty thousand) non-film Hindi songs and around 50,000 (fifty thousand) songs in various regional languages in its copyright catalogue.

The Defendants owned a social networking and entertainment website (the "**MySpace Website**") based out of the United States of America, which offered a variety of entertainment applications including sharing and viewing of music, images, cinematograph works and use of various online tools, etc.

The Plaintiff alleged that the MySpace Website hosted copyrighted material of the Plaintiff which included recently released infringing material and also the material which had not yet been released or was authorised only for broadcast through the authorised distribution channels. The Plaintiff also contended that the MySpace Website made the Plaintiff's copyrighted material available to its users/subscribers free of cost without the Plaintiff's permission.

The Plaintiff argued that the Defendants were guilty of primary infringement under Section 51(a)(i) of the Copyright Act, for communicating copyrighted works to the public without a license. Further, the Plaintiff argued that the Defendants were guilty of secondary infringement under Section 51(a)(ii) of the Copyright Act, since they were providing a place for communication of the said works to the public being aware of the infringing material and also were benefitting commercially from such knowledge.

The Defendants, while challenging the admissibility of the suit on the ground of lack of territorial jurisdiction, essentially argued that the Plaintiff had failed to specify the copyrighted works in respect of which it claimed copyright infringement. The Defendants also contended that the Plaintiff's non-specific prayers, if granted, would impose impossible burden on the Defendants. The Defendants also claimed to be an intermediary providing a free-of-cost platform to third-party users without actual or direct knowledge of the content uploaded by them; they also claimed the benefits of Section 79[18] of

[17] Section 51 of the Copyright Act: When Copyright Is Infringed
Copyright in a work shall be deemed to be infringed—
(a) when any person, without a licence granted by the owner of the copyright or the Registrar of Copyrights under this Act or in contravention of the conditions of a licence so granted or of any condition imposed by a competent authority under this Act—

(i) does anything, the exclusive right to do which is by this Act conferred upon the owner of the copyright, or
(ii) permits for profit any place to be used for the communication of the work to the public where such communication constitutes an infringement of the copyright in the work, unless he was not aware and had no reasonable ground for believing that such communication to the public would be an infringement of copyright.

[18] Section 79 of the IT Act: Intermediaries Not To Be Liable In Certain Cases
(1) Notwithstanding anything contained in any law for the time being in force but subject to the provisions of sub-sections (2) and (3), an intermediary shall not be liable for any third-party information, data, or communication link made available or hosted by him.
(2) The provisions of sub-section (1) shall apply if—
(a) the function of the intermediary is limited to providing access to a communication system over which information made available by third parties is transmitted or temporarily stored or hosted; or
(b) the intermediary does not—
(i) initiate the transmission,
(ii) select the receiver of the transmission, and
(iii) select or modify the information contained in the transmission;
(c) the intermediary observes due diligence while discharging his duties under this Act and also observes such other guidelines as the Central Government may prescribe in this behalf.
(3) The provisions of sub-section (1) shall not apply if—
(a) the intermediary has conspired or abetted or aided or induced, whether by threats or promise or otherwise in the commission of the unlawful act;
(b) upon receiving actual knowledge, or on being notified by the appropriate Government or its agency that any information, data or communication link residing in or connected to a computer resource controlled by the intermediary is being used to commit the unlawful act, the intermediary fails to expeditiously remove or disable access to that material on that resource without vitiating the evidence in any manner.
Explanation — For the purposes of this section, the expression "*third party information*" means any information dealt with by an intermediary in his capacity as an intermediary.

the IT Act, also known as safe harbour immunities, available to intermediaries in India.

The single judge found no *prima facie* case of copyright infringement against the Defendants under Section 51(a)(i) of the Copyright Act and wished to analyse evidence at the time of trial of the suit.

However, he held that a valid *prima facie* case was made out under Section 51(a)(ii) against the Defendants. The interlocutory application (filed with the suit seeking interim reliefs till the pendency of the suit) was decided in favour of the Plaintiff; it was concluded that the Defendants could not take protection afforded to intermediaries on the internet under Section 79 read along with Section 81[19] of the IT Act as only the Copyright Act would apply to this case.

The single judge issued an interim direction and order, injuncting the Defendants from using any of the content of the Defendants, including modifying the Plaintiff's copyrighted content, adding advertisements and sponsors, or making profits. The single judge also ordered the Defendants to remove or block all of the Plaintiff's content from the MySpace Website in an expedited manner.

Thereafter, being aggrieved by the interim order restraining them to practically carry out their business in India, the Defendants preferred an appeal before the division bench of the Court challenging the order of the single judge. The division bench decided the appeal recently and reversed the order of the single judge of the Court basis the below exposition.

3. ISSUES IN APPEAL

The division bench of the Court analysed the case and examined the Defendants' liability under secondary infringement under Section 51(a)(ii) of the Copyright Act only (the primary infringement issue under Section 51(a)(i) was to be determined by the single judge at trial stage) and answered prima facie, the following three main issues:

- Whether the Defendants could be said to have knowledge of infringement so as to attract liability for secondary infringement under Section 51(a)(ii) of the Copyright Act ("**Issue 1**");
- Does proviso to Section 81 override the "safe harbour" granted to intermediaries under Section 79 of the IT Act ("**Issue 2**"); and
- Whether it was possible to harmoniously read and interpret Sections 79 and 81 of the IT Act and Section 51 of the Copyright Act ("**Issue 3**").

4. DIVISION BENCH'S FINDINGS

The division bench of the Court, deciding in the Defendants' favour, held that the acts of the Defendants did not amount to infringement of the Plaintiff's copyright under Section 51(a)(ii) of the Copyright Act. The Court's observations and conclusion on each of the above issues are summarised as follows:

4.1. Issue 1

In deciding the first issue, the Court held that the standard of awareness contemplated in Section 51(a)(ii) is actual knowledge, and not general awareness or mere suspicion.

The Court defined copyright infringement to mean the doing of any unauthorised act which violate the exclusive rights of the copyright owner. Elucidating the circumstances of the case, the Court held that, to attract liability for secondary infringement, the Defendants would be required to have actual knowledge and not mere awareness of the infringement. Connecting the difference between virtual and physical worlds, the judgment stated-

"*The nature of internet media is such that the* interpretation *of knowledge cannot be the same as that is used for a physical premise.*"

[19] Section 81 of the IT Act: Act To Have Overriding Effect
The provisions of this Act shall have effect notwithstanding anything inconsistent therewith contained in any other law for the time being in force. Provided that nothing contained in this Act shall restrict any person from exercising any right conferred under the Copyright Act, 1957 or the Patents Act, 1970.

Further, the Court took inspiration from R.K. Mohammed Ubaidullah v. Hajee C. Abdul Wahab, 2000 (6) SCC 402 and quoted-

"*A person is said to have notice of a fact when he actually knows that fact, or when, but for* willful *abstention from an inquiry or search which he ought to have made, or gross negligence, he would have known it*."

The Court identified and settled that it was impossible for the Defendants to monitor infringement of the sheer volume of songs shared by the Plaintiff on the MySpace Website. The Court also observed that mere insertion of advertisements which only altered the format of the video and not the content would not amount to control of content or knowledge of content since such insertion appeared *prima facie* to be through a completed automated process.

Thus, the Defendants could not be attributed with beneficial knowledge and reasonable belief that infringement had taken place because of the sheer size of the content available on the MySpace Website and the inability to monitor everything that is uploaded or shared by millions of users/subscribers on the MySpace Website.

Consequently, the Court ordered the Plaintiff to specify and enlist the authorised works/content shared with the Defendants and settled that the ritual of merely sharing the names of its content (without allocating the details of the infringing works) with the Defendants were against the established principles of copyright laws.

4.2. Issue 2

The Court, while deciding the second issue, discussed in length Section 79 and Section 81 of the IT Act and tried resolving the confusion between the two by construing that both the sections had to be read harmoniously.

The Court explained that Section 79 of the IT Act provides a 'safe harbour' to internet intermediaries by directing instances where the intermediary's liability would not be arising. The Court observed that the Indian safe harbour provisions under the IT Act were more similar to the European Community Directives ("**ECD**") than the US Digital Millennium Copyright Act ("**DMCA**") in the way Internet Service Providers (*ISPs*) were more broadly defined under the ECD and the IT Act than under the DMCA and the list of dos and don'ts applicable for them to be able to obtain the benefit of the safe harbour provisions were more clearly set out in the ECD and the IT Act.

The difficulty in interpretation and reconciliation between Section 79 and Section 81 of the IT Act arose because both these sections contain a non-obstante clause. Section 79 provides that notwithstanding anything contained in any other law other than Section 79(2) and 79(3) which means that Section 79 reigns supreme in the determination of the safe harbour provisions. However, in a similar fashion, Section 81 provides that notwithstanding anything contained in any other provision of law, the IT Act will have effect and this very Section 81 has a proviso to the effect that nothing in the IT Act will prevent the exercise of any right conferred under the Copyright Act.

The Division Bench clarified that the proviso does not override 'safe harbour' and such defence cannot be denied to intermediaries in case of copyright infringement actions. The Court held that remedies would be made available to the intermediaries and the same shall not stand precluded by virtue of Section 81 of the IT Act because rights granted under the IT Act are in addition to the rights granted under the Copyright Act.

4.3. Issue 3

Finally, in relation to the third issue, the Court emphasised on the fact that all 3 (three) sections i.e. Sections 79 and 81 of the IT Act and Section 51 of the Copyright Act had to be read and interpreted together since it would be only logical to interpret the law by reading the sections together because in an age where service providers and subscribers are technologically driven and digitalised, an infringement by a subscriber cannot be attributed to the service provider, who acted as the intermediary and only provided the network and had no connection to the content being used, uploaded, downloaded, shared, saved, etc. on the network.

5. CONCLUSION

The division bench of the Court held that the Defendants were an internet intermediary as defined under the IT Act, as the MySpace Website was not selecting or modifying the material being transmitted or initiating any transmission. Being an internet intermediary, they were entitled to the safe harbour benefits under Section 79 of the IT Act, having followed the due diligence principles and guidelines issued thereunder. These include having the appropriate notices, agreements and a procedure for taking down infringing material which comes to their specific knowledge.

To summarise, the Defendants had not infringed on the copyright works of the Plaintiff, since the content was shared by the Plaintiff and as an intermediary, they were compliant with the due diligence procedure involved in monitoring such large content over an internet space used by millions of subscribers. The Defendants were only the medium through which the message was dispensed to the masses and could have no control over content which they had no direct knowledge about.

For the above reasons, the Court set aside the single judge's order and granted relief to the Defendants.

6. INDUSLAW VIEW

The judgment passed by the division bench of the Delhi High Court is a landmark and path-breaking ruling, which has harmonized provisions that appeared contradictory to each other in the Copyright Act and IT Act. The Court has tried to balance two different statues through its interpretation and application by making one an extension of the other.

The Court has shown its progressive outlook by taking into consideration the idiosyncrasies of the distinct internet intermediary community and overturned a regressive order which would have otherwise created a system of control over the basic and fundamental principles of free speech over the internet.

By doing this, the Court has tried to strike a balance between the rights of intellectual property holders and the intermediary community in the interest of dissemination of information, entertainment and knowledge.

This judgment of the Delhi High Court is ground-breaking and remarkable in its analysis of actual knowledge for intermediaries under the Copyright Act. The holding that attributing knowledge generally to an intermediary would result in closure of several websites and services and that it would perpetrate a greater evil of private viewing and censorship resulting in breach of a fundamental right to privacy is fairly visionary, and exhibits a mature knowledge and understanding of the new internet medium and its technicalities by the judiciary. This bodes well for the internet industry as a whole and gives multinational and Indian internet companies a much-needed assurance that they will have a fair hearing and a fair application of law in Indian Courts.

D. Where can a Foreign Registered Proprietor sue in India for Infringement of its Trademark?[20]

1. INTRODUCTION

A Division Bench of the High Court of Delhi (the "**Court**"), in its recent judgment in the matter of *P.K. Sen vs. Exxon Mobile Corporation and Anr.*[21], reversed the decision of a single judge of the Court and held that a foreign *registered proprietor*[22] who does not have an office or a principal place in India, cannot file and maintain a suit of trademark infringement

[20] http://induslaw.com/publications/pdf/alerts-2017/Infolex-Newsalert-Where-can-a-Foreign-Registered-Proprietor-sue-in-India-for-Infringement-of-its-Trademark.pdf?src=website&CTA=readmore&date=22-02-2017

[21] FAO (OS) No.290/2016 & CM No.37465/2016; Available at: https://indiankanoon.org/doc/119950261/ last visited 6/02/2017

[22] Section 2(1)(v) of the Act defines a "**registered proprietor**" in relation to a trade mark as *the person for the time being entered in the register as proprietor of the trade mark.*

and passing off on the basis of the location of the trademark's *permitted user*.[23]

A *permitted user* is a licensee, either exclusive or non-exclusive, of a registered trademark and different from a *registered user*.'[24] While a *registered user* has a right to initiate a suit for trademark infringement[25] under the Trade Marks Act, 1999 (the "**Trade Marks Act**"), a *permitted user* is specifically prevented[26] to do so under the Trade Marks Act.

The Court essentially held that a *registered proprietor* cannot institute a suit for trademark infringement and passing off in the location of where a *permitted user* was incorporated, or benefit from the provisions of sub-section (2) of Section 134[27] of the Trade Marks Act.

Section 134 of the Trade Marks Act allows for the initiation of a trademark infringement suit in the principal place of business of the *registered proprietor* or the *registered user*. The Court refused to allow initiation of a case in Delhi, as the plaintiff did not have a registered office within Delhi and the mere fact that the *registered user* had its registered office in Delhi was not adequate to confer jurisdiction on the Delhi High Court.

A single judge had earlier held that the Court had jurisdiction to entertain and try the suit for trademark infringement and passing off, as the *permitted user* of the infringed registered trademark in the matter had its registered office in Delhi, which is within the territorial jurisdiction of the Court.

2. BACKGROUND

Exxon Mobile Corporation ("**Plaintiff No. 1**"), a company incorporated in the USA, is the registered proprietor of the trademark 'EXXON' in India. Its Indian subsidiary ("**Plaintiff No. 2**") has its registered office in Delhi. Plaintiff No. 2 is the permitted user of the mark 'EXXON' in India. Plaintiff No. 1 and Plaintiff No.2 are referred to collectively as the "**Plaintiffs**".

The Plaintiffs filed a suit for trademark infringement and passing off before the Court seeking an injunction against Mr. P.K. Sen (the "**Defendant**"), who was the proprietor of the

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[23] The *permitted use* of a registered trademark by a *permitted use*' has been defined in Section 2(1)(r)(ii) of the Trade Marks Act, as follows:

"**permitted use**", in relation to a registered trade mark, means the use of trade mark—

(i) by a registered user ……. ; or

(ii) by a person other than the registered proprietor and registered user in relation to goods or services—
   (a) with which he is connected in the course of trade; and
   (b) in respect of which the trade mark remains registered for the time being; and
   (c) by consent of such registered proprietor in a written agreement; and
   (d) which complies with any conditions or limitations to which such user is subject and to which the registration of the trade mark is subject.

[24] Section 2(1)(x) of the Act defines a "**registered user**" as - a person who is, for the time being, registered as such under Section 49 of the Trade Marks Act.

[25] Under Section 52(1) of the Trade Marks Act, subject to any agreement subsisting between the parties, a *registered user* may institute proceedings for infringement in his own name as if he were the *registered proprietor* making the *registered proprietor* a defendant and the rights and obligations of such registered use in such case being concurrent with those of the *registered proprietor*.

[26] Section 53 of the Trade Marks Act provides that a person referred to in sub-clause (ii) of clause (r) of sub-section (1) of section 2 shall have no right to institute any proceeding for any infringement.

[27] Section 134 of the Trade Marks Act - 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 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 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" include the registered proprietor and the registered user.

name and mark 'EXON Engineering Corporation' who had his office in Kolkata.

2.1. At the trial stage

The Plaintiffs sought to invoke the provisions of Section 134(2) of the Trade Marks Act on the following grounds:

- Plaintiff No. 2 had its registered office in New Delhi, which was within the territorial jurisdiction of the Court;
- Plaintiff No. 2 was a subsidiary of Plaintiff No. 1; and
- Plaintiff No. 2 was a *permitted user* of the mark 'EXXON' by way of a license executed between Plaintiff No. 1 and Plaintiff No. 2.

As the Defendant did not have any presence in Delhi and did not carry on business therein, he challenged the suit, essentially alleging that the Court did not have any territorial jurisdiction to try the suit. The Defendant further contended that the benefits provided under Section 134(2) of the Trade Marks Act cannot be claimed by the Plaintiffs as Plaintiff No. 1 did not have a registered office in India and Plaintiff No. 2 had no right to institute a suit for infringement under Section 53 of the Trade Marks Act, as it was merely a *permitted user*.

In response to the Defendant's contentions, the Plaintiffs argued that Section 53 of the Trade Marks Act had to be read in continuation with Section 52, which allowed a *registered user* of a trademark to institute a suit in his own name. It was further contended by the Plaintiffs that since Plaintiff No. 2 was a *permitted user*, the use of the trademark 'EXXON' by it would be deemed to be use of the mark by Plaintiff No. 1 under the Section 48(2)[28] of the Trade Marks Act for the purposes of infringement.

Upon hearing the arguments put forward by both parties, the Court, at first instance agreed with the Plaintiffs and concluded that the definition of *person* under explanation to Section 134(2) of the Trade Marks Act was an *inclusive* one and was not restricted to a *registered user* or a *registered proprietor*.

Reliance was also placed on the reasoning of the Supreme Court in the matter of *Exphar S.A. and Another v. Eupharma Laboratories Limited and Another*[29] that provided a discussion on sub-section (2) of Section 62[30] of the Copyright Act, 1957 (the "**Copyright Act**"). In that case, the court held that Section 62(2) of the Copyright Act was similar to Section 134(2) of the Trade Marks Act and provided the plaintiffs with an additional forum for instituting suits for copyright infringement. The single judge observed that: "*irrespective of the fact that the Plaintiff No. 2 was neither a registered user nor a registered proprietor, all that was necessary to be seen was if the Plaintiff No. 2 could be regarded as a 'person' instituting a suit and whether it carried on business within the jurisdiction of this Court*".

It was hence concluded by the Court at first instance that Plaintiff No. 1 was deemed to be carrying on business in Delhi, as the trademark was used and promoted by Plaintiff No. 2 in Delhi. The Court was found to have territorial jurisdiction to try the suit. The Defendant appealed the decision, which was

[28] Under Section 48 (2) of the Trade Marks Act, the *permitted use* of a trade mark shall be deemed to be used by the proprietor thereof, and shall be deemed not to be used by a person other than the proprietor for the purpose of section 47 or for any other purpose for which such use is material under this Act or another law.

[29] (2004) 3 SCC 688
https://indiankanoon.org/doc/474885/

[30] Section 62 in the Copyright Act

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.

taken up for consideration by the Division Bench of the Court.

2.2. At the Appellate Stage

Upon going through the above contentions of the parties and conclusions drawn by the Court at first instance, the Division Bench of the Court considered the following issues:

- Whether the fact that Plaintiff No. 2's registered office was in Delhi would suffice to show business carried on by Plaintiff No. 1 under the tradename and mark in Delhi ("**Issue 1**");
- Whether Plaintiff No. 2, who is a *permitted user* and not a *registered user* can be added as a plaintiff in a suit for trademark infringement when it is strictly prohibited from doing so under Section 53 of the Trade Marks Act ("**Issue 2**");
- Whether the fact that Plaintiff No. 2, who's registered office is within the limits of the Delhi courts, gives the Delhi courts territorial jurisdiction to try the suit under Section 134(2) of the Trade Marks Act ("**Issue 3**");
- Whether the definition of a '*person*' under Section 134 (2) of the Trade Marks Act was an inclusive one ("**Issue 4**"); and
- Whether the *Exphar* decision[31] could be applied to the matter ("**Issue 5**").

3. CONSIDERATION UPON THE ISSUES

At the appellate stage, the Court proceeded to address the issues as follows.

3.1. Issue 1

The Court confirmed that the *permitted use* of the mark by Plaintiff No. 2 was considered to be use by Plaintiff No. 1 under Section 48 of the Trade Marks Act. However, after analyzing the decisions of the Supreme Court in *Indian Performing Rights Society Limited v. Sanjay Dalia*[32] and in *Dhodha House v. S.K. Maingi,*[33] the Court found that the Delhi courts, within whose territorial limits the registered office of Plaintiff No. 2 was located, would be deemed to have jurisdiction to try the suit, had the cause of action arose in Delhi.

3.2. Issue 2

The Court observed that Section 53 of the Trade Marks Act explicitly prohibited Plaintiff No. 2, a *permitted user*, from instituting a suit for trademark infringement. Hence, Plaintiff No. 2 was not eligible to initiate the suit under the law.

3.3. Issues 3 and 4

Once it was clarified that Plaintiff No. 2 could not be a plaintiff in the suit for trademark infringement, the Court found that its location cannot be taken into account for determining territorial jurisdiction for initiation of the suit.

The Court went on to see if the definition of a *person* under the explanation to Section 134(2) of the Trade Marks Act was broad enough to include a *permitted user* in its scope. The Court held that even though the definition of a *person* cannot be restricted to a *registered proprietor* and a *registered user*, it would not include a *permitted user* suing for an infringement of a trademark as there is an express prohibition under Section 53 of the Trade Marks Act.

The Court observed that if the word *person* in the explanation to Section 134(2) of the Trade Marks Act is deemed to include a *permitted user*, then it would mean that while on the one hand Section 53 bars a *permitted user* from instituting any proceeding for infringement, on the other hand, Section 134(2) would yet regard him as a *person* instituting the suit for determining jurisdiction. This interpretation would be contrary to the terms of the enactment.

[31] Supra note 11.

[32] 2015 (10) SCC 161

[33] 2006 (9) SCC 41

3.4. Issue 5

The Court opined that since there was no concept of *permitted user* and *registered user* under copyright law, it was not appropriate to rely on the *Exphar* decision in the present case. The Court also observed that the concept of the *person* instituting a suit for infringement under the Copyright Act was different from that of a *person* instituting a suit under the Trade Marks Act.

4. CONCLUSION

The Court concluded that since no part of the cause of action arose in Delhi, the suit should be initiated in Kolkata. Consequently, the Court ruled that it did not have territorial jurisdiction to entertain the present suit. The Defendant's appeal was, therefore, allowed and the order passed at first instance by the Delhi High Court was set aside.

5. INDUSLAW VIEW

There have been many instances where the courts have discussed the issues of *additional territorial jurisdiction* under Section 134(2) of the Trade Marks Act and Section 62(2) of the Copyright Act. This decision by the Delhi High Court significantly contributes to the developing jurisprudence on *additional territorial jurisdiction* provided under intellectual property statutes.

In this judgment, the Court tested the arguments supporting *territorial jurisdiction* in Delhi and provided clear explanations for dismissing the suit filed in Delhi. The Court also took a strong stand against equating a *permitted user* with a *registered user* for determining territorial jurisdiction.

This judgment of the Court gives clarity on where the registered proprietor of a trademark can sue in India for infringement of its trademark when it does not have a *registered user* or place of business in India.

This does not mean that a *registered proprietor* cannot sue in India. It only means that a *registered proprietor* has to sue in the place where the defendant carries on its business or where the cause of action has arisen based on the general principles of civil jurisdiction incorporated in the Civil Procedure Code.

The benefit of additional jurisdiction given under the Trade Marks Act is not available to the *registered proprietor* who has no registered user in India or a place of business in India.

E. RENEWABLE ENERGY ALERT[34]

Our Renewable Energy Alert is a monthly update designed to keep you up-to-date with the latest legal developments that could potentially impact your business.

We set out below a brief summary of some of the key legal developments impacting the sector during January 2017.

1. ARE WE HEADING FOR A ZERO GST RATE?

The Ministry of Power of the Government of India (the "**MoP**") on 16th January, 2017 made a proposal to the Goods and Services Tax ("**GST**") Council for a zero GST rate tax status or deemed export status on renewable energy under the coming GST legislation.

At present, excise duty is exempted on solar panels, but states levy between 0 to 5% of concessional value added tax and the center levies an additional 2% of central sales tax in case of the inter-state power supply.

It is anticipated that the new GST legislation will charge a GST rate of 18% on raw materials and services availed by renewable power producers.

This is likely to result in an increase in capital expenditure for renewable energy companies of up to 10-12%, which will require a tariff increase of between Rs. 30 to 40 paise for wind power projects and Rs. 40 to 50 paise for solar power projects to mitigate the increased costs.

[34] http://induslaw.com/publications/pdf/alerts-2017/Infolex-newsalert-renewable-energy-alert-feb.pdf?utm_source=LinkedIn&utm_medium=Organic&utm_term=%20&utm_content=02-Feb-2017&utm_campaign=LinkedIn-Planned-Post

The proposal also suggests bringing *all* hydropower projects in the category of *renewable* energy. Currently, only existing small hydropower projects below 25MW are considered as renewable energy projects.

2. SOLAR ROOFTOP – PERFORMANCE INCENTIVES TO DISCOMS

The Ministry of New and Renewable Energy (the "**MNRE**") has come out with a Performance Incentive Scheme (the "**Scheme**")[35] to provide financial support to power distribution companies[36] ("**DISCOMs**") to promote and increase the installation of rooftop solar systems ("**RTS**") within their distribution areas.

This Scheme intends to stimulate India's ambitious target of adding 175 GW of renewable energy capacity by 2022 under which it is anticipated that 40 GW of renewable energy capacity is to be added from rooftop solar power installations.

Under the Scheme, DISCOMs will be provided with a maximum grant of up to Rs. 37.5 lakh per MW of RTS installed up to 1,350 MW of capacity.

This grant can be used by the DISCOMs to upgrade and modernise its distribution network, facilitate demand aggregation and develop consumer awareness programs. This grant will be *exclusive* of any other central or state grants to DISCOMs.

[35] *http://solarrooftop.gov.in/notification/Notification-08112016901.pdf*

[36] *DISCOMs will also include private sector DISCOMs.*

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