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Case No: A3/2009/2692 & A

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE
(CHANCERY DIVISION)
KITCHIN J
[2009] EWHC 2992 (Pat)

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 24/08/2010

Before:

THE MASTER OF THE ROLLS
LADY JUSTICE ARDEN
and
LORD JUSTICE TOMLINSON

Between:

**ORACLE AMERICA, INC (FORMERLY SUN
MICROSYSTEMS, INC)**

**Claimant/
Respondent**

- and -

(1) M-TECH DATA LIMITED

**Appellant/
First
Defendant**

(2) STEPHEN LAWRENCE LICHTENSTEIN

**Second
Defendant**

**Mr Christopher Vajda QC & Mr Guy Tritton (instructed by Hill Dickinson LLP) for the
Appellant/First and Second Defendant**

**Mr James Mellor QC & Ms Marie Demetriou (instructed by Nabarro LLP) for the
Claimant/Respondent**

Hearing date: 28 July 2010

Approved Judgment

Lady Justice Arden:

1. The essence of the problem on this application for permission to appeal (with appeal to follow if permission is granted) may be described shortly. A, the proprietor of a trade mark, grants exclusive licences within the EEA and outside the EEA. The provenance of goods produced under the licences granted by A is identifiable by A by a means not available to the public: there is no published serial mark tracker. Under Article 7 of the Trade Mark Directive (“TMD”) (Directive 2008/95/EC), A’s right to bring proceedings for infringement of its trade mark within the EEA is exhausted if (but only if) the goods alleged to infringe its mark were first marketed in the EEA. B, an importer, brings goods using A’s trade mark into the EEA. A is able to identify these goods as having been first marketed outside the EEA so that A’s right to bring infringement proceedings in the EEA is not exhausted. A sues B for infringement of his trade mark. A has adopted an aggressive policy of suing persons who are not its authorised distributors or resellers in these circumstances. B, having no other defences, sets up three “Euro-defences” derived from the conduct of A in failing to make publicly available a serial mark tracker, in aggressively pursuing infringement proceedings against non-licensed resellers of goods using its mark and agreeing terms it contends are designed to reduce a grey market in its goods. Those defences are: (1) breach of Articles 28 and 30 (set out below) of the EC Treaty (freedom of movement of goods between member states); (2) abuse of rights conferred by Article 5TMD; and (3) breach of Article 81EC (set out below)(prohibition of agreements restricting competition within the European Union). Is summary judgment properly entered against B or should some other order be made? In this case, Kitchin J, in his carefully reasoned judgment of 25 November 2009, and before whom defences (1) and (3) only were argued, held that those defences disclosed no real prospect of success, and that summary judgment should be given against the defendant (“M-Tech”), the appellant in this court.
2. There are five possible outcomes to this problem. This court could refuse permission, or it could grant permission and dismiss the appeal, or it could grant permission and allow the appeal, or it could grant permission, allow the appeal and make a reference to the Court of Justice of the European Union (“the Court of Justice”), or it could grant permission, allow the appeal and remit the case to the Chancery Division for trial, with a view to the judge making a reference to the Court of Justice, if thought fit, after trial has taken place.
3. The problem posed by this case has to be seen in the context of the assumed facts of this case, which I summarise below.
4. For reasons which I will briefly set out below, I have concluded that the defences are arguable and that the order for summary judgment should be set aside. The principal point is that there is a real prospect of success in the argument that Article 5TMD does not exclude the defences based on Articles 28 and 30EC where it is shown that the proprietor of a trade mark has adopted practices which distort trade within the single market. On the question of a reference to the Court of Justice, because this argument is likely to turn on a close consideration of the particular facts and may not arise if the facts pleaded are not proved at trial, I consider that the reference should be made (if appropriate) only after the facts have been found. Accordingly, in my judgment, the correct outcome to the problem posed in the first paragraph of this judgment, is, on the facts of this case, the fifth outcome given in paragraph 2 above.

Background

5. As the application before the judge was for summary judgment, that is, judgment without a trial, it must be assumed that M-Tech will establish at trial the matters on which it relies in its draft defence (referred to below as its “defence”), and this summary of the background is based on its allegations, many of which are not accepted by Oracle, and which have not yet been proved to be true. The defence does not refer to abuse of rights which will need to be included in the defence when served.
6. M-Tech imported into the United Kingdom from the United States of America 64 disk drives which used the trade mark belonging to the respondent, Oracle America, Inc (“Oracle”) (formerly Sun Microsystems Inc). The judge held that those disk drives had been first put on to the market in China, Chile and the United States of America, and there is no appeal from that finding. Thus Oracle’s rights to sue for trade mark infringement were not exhausted in respect of those 64 disk drives.
7. There is a large market in second-hand computer hardware. In 2007, the market was approximately €260 billion, of which €160 billion is traded by independent resellers. They do not constitute part of authorised networks of computer manufacturers, but (on M-Tech’s case) help ensure a competitive market for second-hand computer hardware. A substantial part of the market in second-hand computer hardware consists of hardware first placed on the market in the EEA by computer hardware manufacturers or with their consent. There is a strong demand for Oracle hardware. Trade is global, and the hardware is often traded several times. As a result, the location of the hardware or of the dealer is often not a guide to whether the hardware was first placed on the market in the EEA with the consent of the trade mark proprietor.
8. Oracle does not publish any information which would enable independent resellers to identify whether a particular item of Oracle hardware has first been placed on the market within the EEA by it or with its consent. Oracle has deliberately adopted a policy of not publishing its database in order to make trade in genuine EEA-first marketed goods as difficult as possible. It aggressively pursues independent resellers for trade mark infringement if they have offered for sale any Oracle hardware which was first marketed outside the EEA. Oracle’s practices deter the import of Oracle hardware by independent dealers whether or not those products were first put on the market in the EEA. The enforcement of Oracle’s exclusive rights in the marks is said to be contrary to articles 28 and 30 as its effect is to prevent the attainment of a single market in hardware which has been first marketed by Oracle, or with its consent, in the EEA.
9. In addition, Oracle has made it a term of its agreements with distributors and resellers of its products that they must buy Oracle new and second hand equipment from within its supply network unless a particular item cannot be supplied from that network. In recent years, as a result of Oracle’s policy, trade in the independent network has largely disappeared. This is detrimental to competition. It also leads to artificial partitioning of the market in second-hand Oracle equipment, and permits Oracle to control that market. M-Tech asserts that in the circumstances it is contrary to Article 81EC for Oracle to enforce the rights attached to its marks against it.

Relevant articles of the EC Treaty

10. Article 28EC (now Article 34 of the Treaty on the Functioning of the European Union (“TFEU”)) provides:

“Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States”.

11. Article 30 EC (now Article 36TFEU) provides:

“The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports...justified on grounds of ...the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.”

12. Article 81EC (now Article 101TFEU) provides in material part:

“1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings ...which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which: (a) directly or indirectly fix purchase or selling prices or any other trading conditions....”

13. The TMD clarifies and codifies the provisions of the earlier Trade Mark Directive of 20 December 1998 (89/104/EEC) (“TMD1”). That directive was designed to remove disparities in the laws of Member States in the interests of the proper functioning of the internal market (see recital (2) to the TMD). The TMD does not codify all aspects of trade mark protection. It is concerned only with those aspects which most directly affect the functioning of the internal market (recital (4) of the TMD).

14. Article 5 of the TMD enables a proprietor to bring infringement proceedings against third parties using his mark without his consent. It provides so far as material:

“Article 5

Rights conferred by a trade mark

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

...

3. The following, *inter alia*, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to the goods or to the packaging thereof;

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

15. Article 7TMD deals with the exhaustion of the proprietor's right to bring infringement proceedings where the goods have been first marketed anywhere in the European Union with the proprietor's consent:

Article 7

Exhaustion of the rights conferred by a trade mark

1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market."

The judge's judgment

16. The first part of the judge's judgment disposed of M-Tech's defence to Oracle's claim that the 64 disk drives had been first marketed outside the EEA. That defence is not further pursued before this court. The judge then examined Articles 5 and 7 TMD, as explained by the Court of Justice in Cases C-414 to 416/99 *Zino Davidoff SA v A & G Imports, Levi Strauss & Co v Tesco Stores* and *Costco Wholesale Ltd* [2002] Ch 109. That excellent summary has not been challenged, and I need not repeat it. The major points for present purposes are that the Court of Justice held that (1) Articles 5 and 7TMD embodied a complete harmonisation of the rules relating to the rights conferred by a mark and the limitation on the rule of European Union exhaustion; (2) the mere fact that the proprietor of a trade mark has consented to the first marketing of goods using his mark outside the EEA does not mean that he has consented to the marketing of those goods in the EEA., and (3) the proprietor of a mark does not have to ensure that those goods bear a warning that they may not be placed on the market within the EEA. Therefore, the proprietor of a trade mark has the right to control whether or not goods using his mark are first marketed in the EEA.
17. The judge examined M-Tech's defence (1), and held that, in the light of the principles established in *Zino Davidoff*, it had no real prospect of succeeding. M-Tech's defence involved reading a further exception to Article 5 into Article 7 that the proprietor of a mark could not bring infringement proceedings where it had adopted practices which might affect the free movement of goods within the European Union. This was

inconsistent with the right to control the first marketing within the EEA of goods bearing the mark. This conclusion was not affected by decisions of the Court of Justice before and after the adoption of TMD1, including cases C-427, C-429 and C-436/93 *Bristol-Myers Squibb v Paranova A/S* [2003] Ch 75 (“BMS”), and Case C-244/00 *Van Doren v Lifestyle Sports and Sportswear* [2004] All ER (EC) 912, which M-Tech contended had the effect that the rights of a proprietor of a mark under the TMD had to be restricted if it would or would be liable to result in the partitioning of the single market.

18. As to M-Tech’s defence (3) (Article 81EC), Oracle accepted, for the purposes of the application, that its agreements with its distributors in the EEA were contrary to Article 81EC but submitted that there was no sufficient connection between the breach and the enforcement of its trade mark rights. The judge accepted this argument. The disappearance of the independent secondary market in Oracle hardware was not due to agreements between Oracle and its distributors but to the inability of the independent resellers to verify the provenance of the Oracle hardware which they had sourced. There was also no connection between the enforcement of Oracle’s rights in respect of its marks and the requirement in its agreements with distributors and resellers that they should source products within the network of authorised distributors of Oracle products unless a particular item could not be supplied from within that network. Accordingly he rejected the submission that there was a real prospect of successfully defending the infringement action on the basis of a violation of Article 81EC.

Arguments on this application and discussion

19. Mr Christopher Vajda QC, for M-Tech, makes submissions under three heads: (1) articles 28 and 30; (2) abuse of rights, and (3) Article 81 EC. I will take the first two together.

Articles 28 and 30EC and abuse of rights

20. Mr Vajda’s submissions on Articles 28 and 30EC on freedom of movement raise the key issue. Mr Vajda submits that Articles 5 and 7TMD must be read consistently with Articles 28 and 30EC and with general principles of European Union law: see, for example, Case 102/77 *Hoffmann La Roche v Centrafarm* [1978] ECR 811, where the Court of Justice held that the then equivalent Treaty provisions to Articles 28 and 30EC could apply to a restriction on repackaging imposed by the proprietor of a mark used on goods marketed with its consent in one of the member states of the European Union. The Court of Justice recognised that this conclusion enabled a trader in appropriate circumstances, including where it was established that the exercise by the proprietor of his rights would contribute to the artificial partitioning of the internal market, to import the goods repackaged, and with the proprietor’s mark affixed, into another member state without the consent of the proprietor.
21. Mr Vajda further submits that the TMD could not “opt out” of the Treaty provisions on freedom of movement and accordingly the exercise of rights under Article 5TMD must not be contrary to those rules. Mr Vajda distinguishes *BMS*. The Court of Justice there held that TMD1 was a complete code in the sense that it pre-empted a national measure in the area of exhaustion covered by Article 7. At the same time, the Court of Justice reaffirmed that the freedom of movement rules applied to restrictions

imposed on repackaging (see also Case C-379/97 *Pharmacia & Upjohn SA v Paranova A/S* [2000] Ch 571). Thus Article 5TMD cannot be used where the effect or aim of the proprietor of the mark is to partition the internal market in the EEA.

22. Mr Vajda relies by way of further example on *Van Doren*. In that case there was a dispute between the proprietor of a mark and the importer of goods using that mark as to whether the goods were first marketed in the EEA. The importer argued that to disclose its sources would deter its suppliers in the future, thus enabling the proprietor to partition the market in the EEA. The Court of Justice held that Articles 28 and 30EC were applicable so that in such circumstances the proprietor had to show initially that the goods were not first marketed in the EEA with its consent. The Advocate General considered whether there was a duty on the proprietor to assist the importer identify the source of goods. The Court of Justice did not deal with this point, and accordingly, although M-Tech places some reliance on that aspect of the case, for present purposes I propose to leave it on one side.
23. In short, the appellant says that the judge was in error in taking the approach that the TMD was a complete code and that the rights of trade mark proprietors could not be subject to any source of law outside the TMD, that the contrary is clearly arguable and that, on the pleaded facts, it has to be assumed that the matters complained of have the effect of partitioning the market.
24. Mr James Mellor QC, for Oracle, submits a case of trade mark infringement is exclusively governed by Articles 5 and 7TMD. Article 7 constitutes the balance struck between the public interest and the rights of the proprietor and contains the limits in European Union law on the protection of the internal market in relation to trade marks. Mr Mellor contends that the cases on repackaging do not establish any general principle about the applicability of Articles 28 and 30EC to trade mark infringement. The Court of Justice has emphasised that the TMD is a complete harmonisation of the rights of the trade mark proprietor and that includes the proprietor's right to control the first marketing in the EEA of goods bearing its mark. The appellant's submission amounts to saying that the proprietor is to be deemed to have given consent to the first marketing in the EEA of equipment brought into the EEA by the importer. This is contrary to *Zino Davidoff* which established that there is no room for any deemed consent. Article 7 is merely concerned with the exhaustion of rights. *Zino Davidoff* clearly establishes that the proprietor consequently has the right to control the first marketing in goods using its mark within the EEA.
25. As to *Van Doren*, Mr Mellor seeks to uphold the judge's rejection of this authority. He submits that this case does not apply where, as in the circumstances before us, there is no doubt but that the goods were first marketed outside the EEA. European Union law draws a sharp distinction between goods first marketed outside the EEA and those first marketed within the EEA (see generally Case C-51/75 *EMI Records Ltd v CBS United Kingdom Ltd* [1976] ECR 811, discussed by Pumfrey J in *Levi Strauss v Tesco Stores Ltd* [2002] 3 CMLR 11 at paragraphs 51 to 55).
26. With respect to the doctrine of abuse of rights, Mr Vajda submits that the rights conferred by Articles 5 and 7TMD cannot be immune from that doctrine as explained by the Court of Justice in *Halifax v HMRC* [2006] STC 919, especially at paragraphs 74 to 81. The law on abuse of rights is in a state of development. The principle is a

general one and has been applied to areas of law other than VAT (see *Halifax* at paragraph 68).

27. Mr Mellor submits that abuse of rights is inapplicable because the proprietor of the trade mark has the right to control where equipment using the mark is first put on the market, and that is the right being enforced in this case. In any event, Oracle will provide provenance information if the importer reveals the identity of the supplier. Mr Mellor submits that it is not easy to have a serial mark tracker. All these points raise issues of fact which this court cannot entertain.
28. I now turn to my conclusions on defences (1) and (2). In my judgment, there is a real prospect of establishing that Articles 5 and 7TMD must be interpreted by reference to Articles 28 and 30EC and that on the facts and matters pleaded a breach of Article 28 will be established which will not be capable of being justified under Article 30EC or Article 7TMD and which will affect Oracle's right to sue M-Tech as a parallel importer for infringement of its marks. There is an early authority in which the Court of Justice raises the question whether the provisions that became Articles 28 and 30EC could apply to arrangements between a trade mark proprietor and a distributor so as to prevent the enforcement of national trade mark rights (Cases 56 and 58/64 *Consten and Grundig v Commission* [1966] ECR 429). There are then the repackaging cases referred to above. There is no case either way directly on the question whether the proprietor's practices such as are alleged by M-Tech, for example in not supplying a serial mark tracker or in aggressive litigation against parallel importers, can constitute measures "having equivalent effect" for the purpose of Article 28EC and, if so, whether such measures would qualify the rights conferred by Articles 5 and 7TMD. The point did not arise in the seminal authority on Article 5 and 7 of *Zino Davidoff*.
29. In my judgment it is properly arguable that Articles 28 and 30EC are applicable in those circumstances. The authorities to which we have been referred do not deal with such a case, and the repackaging cases do not state that the freedom of movement rules only apply in such cases.
30. Moreover, it is also reasonably arguable in the light of those cases that the principle in the case law of the Court of Justice that Articles 5 and 7 represent a complete harmonisation (see, for example, Case C-355/96 *Silhouette International Schmied GmbH v Hartlauer Handelsgesellschaft mbH* [1998] ECR I-4799 and *Zino Davidoff*) is to be restricted to the aspects of the enforcement of trade mark rights in issue in those cases and to pre-empting Member States from legislating on those matters which have been harmonised by the TMD.
31. The judge distinguished *Van Doren* on two grounds: first on the ground that the Court of Justice reiterated its jurisprudence that Articles 5 and 7 constituted a complete code (I have just dealt with that point); and, secondly, on the ground that the rule which had to give way to the freedom of movement rules was a rule of the German domestic law of evidence, not Articles 5 and 7TMD. *Van Doren* cannot, with respect to the careful reasoning of the judge, be distinguished in this way for the purposes of a summary judgment application. The domestic rule was only relevant because it was sought to enforce the European Union law rights conferred by Articles 5 and 7TMD, to which the Court of Justice referred. Thus the effective protection of those rights under European Union law was engaged.

32. *Van Doren* invokes Article 28 and 30EC in a situation which does not concern a question as to repackaging. In addition to the repackaging cases, it directly supports M-Tech's contentions as to the reasonable arguability of its defence (1). Mr Mellor's further ground of distinction that the case applies only where there is doubt as to whether the provenance of the allegedly infringing goods was the EEA may be right, but it is certainly at least reasonably arguable that the case goes much further than its facts.
33. As to justification under Article 30EC and Article 7TMD, the practices alleged arguably have more to do with restricting imports with the object of preventing price competition within the EEA and thereby protecting Oracle's profit margins than with the proper exercise of the right to control the first marketing of Oracle equipment within the EEA. The judge may ultimately be right in saying that these complaints sound in competition law rather than trade mark law, but the space between the two sets of rights is not necessarily exclusively populated by the one or the other set of provisions of European Union law and thus the points are in my judgment reasonably arguable under the TMD.
34. Abuse of rights is to some extent merely another way of putting the same point. Application of that doctrine is fact-sensitive. European Union law in this field is developing, and the application of the doctrine on the matters alleged by M-Tech cannot with certainty be excluded at this stage. The doctrine may provide an alternative way of locating the matters complained of within the TMD.
35. In my judgment, therefore, defences (1) and (2) are properly arguable. Therefore the order for summary judgment should be set aside. It is not desirable that I should say more since, if my Lords agree, these defences will have to be tried.

Article 81EC

36. Defence (3) is a subsidiary issue. Mr Vajda submits that Article 81EC can be relied on as a defence to trade mark infringement proceedings. He submits that it is sufficient to rely on the fact that the purpose of the terms agreed with authorised distributors and resellers is to eliminate the unauthorised secondary trade. The decision of the Court of Justice in Case C-1441/81 *Nancy Kean v Keurkoop* [1982] ECR 2853 indicates that a broad approach should be taken to the question of showing a connection between those terms and the present proceedings. In the circumstances the necessary connection is established. A similar approach was taken by this court in *Sportswear Spa v Stonestyle Ltd* [2007] FSR 33.
37. Mr Mellor does not seek to withdraw from the concession made below but he submits that the judge was right to hold that a close connection is needed, which is not established in this case. It goes almost without saying that Oracle does not accept that the linkage existed in fact. Mr Mellor cites *Kerly on Trade Marks* (14 ed 2005) at 16-027 et seq. as indicating that the Court of Justice has moved away from using competition law as a means of regulating the exercise of trade mark rights to using the free movement rules.
38. In my judgment, there is an arguable point on connection. Mr Mellor's description of the position between the infringement proceedings and the agreements with distributors and resellers as "a complete disconnect" does not take account of the

allegation that the agreements with distributors and resellers form part of an overall scheme for excluding secondary traders from the market. The Court of Justice has not held that Article 81 cannot be used in trade mark cases.

39. There may be some overlap between the facts needed to establish defence (3) and the other defences, which should ease the burden of costs and disclosure arising from this defence.

Conclusion

40. This application has proceeded on the basis that the matters pleaded by M-Tech will be established. Of course they may not be established. In that case, there will be no need to consider the questions of European Union law raised in the defence.
41. If my Lords agree, I consider that this court should direct that Oracle makes an application in the Chancery Division for a case management conference (CMC) to be held as soon as practicable. This case clearly has important financial and economic implications not just for the parties but also for others involved in the grey market in Oracle, and possibly other, computer hardware and goods. The economic function of parallel imports and the grey market is controversial. The judge can consider with the parties at the CMC whether to make an order expediting the trial, and, if so, any further directions appropriate to assist in ensuring that expedition, particularly bearing in mind that this case may not stop at our shores.
42. If M-Tech's allegations are established, the trial judge will have to consider whether to make a reference to the Court of Justice to enable him to decide the issues in the action. In the absence of any material change in European Union law or in M-Tech's case, there would be a strong case for a reference by the trial judge. The point is not *acte clair*, and in this case where the issues involve questions of economic policy likely to affect the European Union as a whole and where this court has already considered the points of European Union law in issue, there would be a good reason to make a reference without waiting for the case to reach this court again.
43. I am not saying that the defences raised will prevail as a matter of law, as that is not the issue before this court. The issue is whether the summary judgment ought to have been granted. I consider that it should not have been granted and accordingly I would grant permission to appeal and allow this appeal and I would also make the other direction for a CMC discussed above.

Lord Justice Tomlinson:

44. I agree.

The Master of the Rolls:

45. I also agree.