Neutral Citation Number: 2014 EWHC 2908 (Ch)

Case No: HC13E05043

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

Royal Courts of Justice
Rolls Building, 7 Rolls Buildings
Fetter Lane, London EC4A 1NL

Date: 29th August 2014

Before :

MR JUSTICE MANN

- -

Between :

Fern Computer Consultancy Ltd	**Claimant**
- and –	
Intergraph Cadworx & Analysis Solutions Inc	**Defendant**

- -
- -

Philip Moser QC (instructed by **Shakespeares Solicitors**) for the **Claimant**
Jasbir Dhillon QC (instructed by **Olswang LLP**) for the **Defendant**

Hearing dates: 25th, 26th & 27th June 2014

- -

Judgment

Mr Justice Mann :

Introduction

1. This is an application by the defendant ("Intergraph") to set aside an order giving permission to the claimant ("Fern") to serve out of the jurisdiction, made by Master Bragge on 29th October 2013. The main claim is based on The Commercial Agents (Council Directive) Regulations 1993 ("the Regulations"), but there is a lesser claim for unpaid commission. Permission to serve out of the jurisdiction (in Texas) was sought on the basis that the contract was governed by English law, and/or that the contract was breached within the jurisdiction. This is notwithstanding that the contract contains an apparently clear Texas law and Texas jurisdiction clause. Thus the application raises the tensions that arise between such clauses and the Regulations, and other associated questions. The application raises a wide variety of points as to whether or not Fern can pass through a service out gateway and, if it can, as to the merits of the claim.

2. Mr Jasbir Dhillon QC appeared for the defendant, and Mr Philip Moser QC appeared for the claimant.

The agreements and underlying facts

3. Intergraph and its corporate predecessor COADE Inc (both Texas-based companies) were the owners and or licensees of certain software products. It is unnecessary to distinguish between those two Texas companies for the purposes of this application. Since 1993 Fern has acted as their agent for selling those products. (There is a dispute in this case as to whether Fern was "selling" anything as opposed to procuring a licence. In this narrative I use the word "sale" and its derivatives without pre-judging that issue). The only agreement which has hitherto been produced as regulating that arrangement is an agreement dated 21st December 2007, and all the debate in this case centred around the effect of that document. Under it Fern was appointed to be a "partner" to solicit orders for the software throughout Europe. Any successful orders resulted in a licence which operated directly between Intergraph and the purchaser/customer. Fern was entitled to commission, and it was to collect the fees paid by end users, deduct its commission and pass the balance to Intergraph. This is the agreement with the Texas law and Texas jurisdiction clause in it.

4. In a little more detail the relevant clauses of the agreement were as follows. In the agreement Fern is described as "CGNP".

5. There are four recitals the first of which reads:

> "WHEREAS COADE, Inc is the owner or licensee of the software products described in Exhibit A attached hereto (the "Software Products"); …"

Unfortunately Exhibit A has the heading "Current Price Lists". It does not specify the software products; nor does it contain a current (or any) price list, though it does indicate that pricing can be found online at COADE's website. However, there was no relevant dispute as to what products in which Fern was to deal.

6. The third recital reads:

> "Whereas COADE, Inc desires to appoint CGNP as its non-exclusive COADE Global Network Partner to solicit orders for the Software Products and to provide such other services as described herein."

7. Clause 1 contains the appointment of Fern as agent:

> "COADE, Inc hereby appoints CGNP as its non-exclusive "COADE Global Network Partner" to market and solicit orders for the Software Products throughout the territory defined in Exhibit B attached hereto (the "Territory"), on the terms and conditions described herein. CGNP shall only solicit orders from end users of the Software Products or from Sub-Representatives approved by COADE, Inc in accordance with the requirements of Section 1(b) hereof ...."

Unfortunately the Territory is not defined either, but it is common ground that it included Western Europe, though Fern was primarily based in the UK and started its activities there before adding certain European countries over time.

8. Clause 2 contains Fern's duties. They include:

> "(a) CGNP will use its best offers to solicit orders for the Products as provided hereunder. COADE, Inc reserves the right, at its sole discretion, to accept or reject any orders submitted by CGNP hereunder."
>
> (d) CGNP shall immediately forward to COADE Inc in writing by registered or certified airmail, by fax, or by email, each order obtained by CGNP thereunder…
>
> (f) CGNP shall be primarily responsible for providing technical support to all customers of the Software Products which it procures. All such customers shall be instructed to direct any requests for technical support to CGNP ... CGNP shall, in any event, resolve any customer request for support to the satisfaction of the customer within one (1) business day or, if CGNP is unable to do so, shall refer the request to COADE Inc by the fastest possible means within one (1) day period.
>
> (j) CGNP shall, at its own cost and expense, protect and defend and assist COADE, Inc with protecting and defending COADE, Inc's ownership of the Software Products and all intellectual property rights associated therewith against all claims, liens, and proceedings. CGNP acknowledges and agrees that it shall have no right to encumber in any manner and shall keep the Software Products and all intellectual property rights associated therewith free and clear of all claims, liens and encumbrances."

9. Clause 3 contains COADE's (subsequently Intergraph's) duties:

> "(c) COADE, Inc or its licensors shall enter into a software license agreement directly with each customer to whom COADE, Inc delivers any of the Software Products in response to an order obtained by CGNP and accepted by COADE, Inc.

...

> (e) COADE, Inc will provide evaluation copies of the software, with a maximum of 30 days usage allowed, at no charge to the customer or CGNP. The CGNP [sic] shall be responsible, at its sole expense, for recovering the Electronic Software Lock provided along with each item of Software Product sent for evaluation. This policy is subject to review, modification or revocation at any time by COADE, Inc."

10. The Electronic Software Lock (abbreviated in the jargon of the case to ESL) features in later arguments in this case and therefore needs a small amount of

explanation. As will appear, the software was generally provided by a physical means (a CD-ROM), and along with those physical means there was provided a small piece of hardware (a USB dongle) with some code on it, which was needed to activate the software and without which it was locked. It was plugged into the equipment running the software product. This was a security measure to prevent piracy.

11. Clause 3(f) actually uses the word “sell”:

> “(f) COADE, Inc will provide CGNP the right to sell Global Corporate Agreements, as well as the right to sell to those companies holding Global Corporate Agreements."

12. Payment and commissions were dealt with in clause 4:

> “(a) Payment of the licence fee relating to licences of any of the Software Products to customers procured by CGNP shall be due to COADE, Inc within sixty (60) days of COADE, Inc's shipment of the Software Product in question. CGNP shall be responsible for collecting such fee from the customer in question and, after deducting the commission payable to it hereunder with regard to the licence in question, shall remit such fee to COADE, Inc. All payments hereunder shall be made in US dollars…”

The commission was 50% of net receipts.

13. Clause 5 dealt with proprietary rights and, so far as relevant, said:

> “(a) CGNP acknowledges that COADE, Inc is the owner or authorised licensee of all rights, title, and interest in and to the Software products and, except as set forth here in, nothing herein shall grant to CGNP any rights to any such Software Products. CGNP further acknowledges that the Software Products constitute the trade secrets of COADE, Inc or its licensor and shall be safeguarded by CGNP in the same manner as CGNP employs for its own trade secrets…"

14. Clause 7 dealt with the term and termination of the agreement. Sub clause (a) provided that the agreement would continue until 31st December 2008 and would thereafter be automatically renewed for one year unless terminated by either party by written notice delivered at least 60 days prior to the end of any year. The effect of that was mitigated by subclause (d):

> "(d) Either COADE, Inc or CGNP may terminate this Agreement at any time with or without cause by providing sixty (60) days' prior written notice of intention to terminate to the other."

15. Clause 10 contains the important jurisdiction and governing law provisions:

“10. <u>General</u>

> (a) CGNP shall comply with all applicable laws in the jurisdictions in which CGNP carries out its activities in connection with its performance hereunder.

...

> (c) THIS AGREEMENT SHALL IN ALL RESPECTS BE INTERPRETED AND CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS USA (EXCLUDING ITS CHOICE OF LAW PROVISIONS) REGARDLESS OF THE PLACE OF ITS EXECUTION OR PERFORMANCE. For the benefit of COADE, Inc CGNP hereby irrevocably agrees that any legal action, suit or proceeding arising out of or relating to this Agreement shall be brought in the courts of the State of Texas sitting in Houston, Harris County, Texas, or in the United States District Court for the Southern District of Texas. By the execution and delivery of this agreement, CGNP hereby irrevocably consents and submits to the exclusive jurisdiction of such courts in any such action, suit or proceeding. CGNP irrevocably waives any objection which it may now or hereafter have to the laying of venue for any action, suit or proceeding arising out of or relating to this Agreement in the courts of the State of Texas sitting in Houston, Harris County, Texas, or in the United States District Court for the Southern District of Texas, and irrevocably waives any claim that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum."

The Regulations

16. The Regulations were made pursuant to Council Directive 86/653/EEC on the "co-ordination of the laws of Member States relating to self-employed commercial agents". The Directive recites:

> "… Whereas the differences in national laws concerning commercial representation substantially affect the conditions of competition and the carrying on of that activity within the Community and are detrimental both to the protection available to commercial agents vis-à-vis their principals and to the security of commercial transactions; whereas moreover those differences are such as to inhibit substantially the conclusion and operation of commercial representation contracts where principal and commercial agents are established in different Member States;
>
> Whereas trade in goods between Member States should be carried on under conditions which are similar to those of a single market, and this necessitates approximation of the legal systems of the Member States to the extent required for the proper functioning of the common market; whereas in this regard the rules concerning conflict of laws do not, in the matter of commercial representation, remove the inconsistencies referred to above, nor would they even if they were made uniform, and accordingly the proposed harmonization is necessary notwithstanding the existence of those rules;"

17. The Regulations themselves contain detailed provisions governing the relationship between agents and their principals. For ease of reference the

relevant provisions are set out in Appendix 1 to this judgment, together with a limited amount of commentary.

Termination of the agreement and proceedings in Texas

18. The agency agreement was terminated by Intergraph by a notice dated 29th October 2010, giving 60 days notice. The agreement was therefore terminated on 31st December 2010. It is not clear what has been happening, if anything, between the parties between then and now, but that does not matter. In early January 2014 Intergraph became aware that these proceedings had been commenced (on 18th November 2013) and on 14th January 2014 it commenced proceedings in Texas seeking declarations that:

(i) The Texas jurisdiction clause is valid and enforceable.

(ii) Any dispute arising out of the agreement must be brought in the Texas courts (state or federal).

(iii) Texas law applies to any dispute arising out of or relating to the agreement and no foreign judgment relating to the agreement will be recognised.

(iv) Intergraph was entitled to terminate the agreement.

(v) The termination of the agreement did not entitle Fern to any monetary relief under Texas law or the agreement.

(vi) Any foreign judgment arising out of or relating to the agreement would not be recognised in Texas.

19. Those proceedings also claim some legal fees as damages. Fern sought to challenge the jurisdiction of the Texas court and invited the court to apply UK law to determine jurisdiction, but failed in that challenge. A trial of the Texas proceedings is likely to take place in mid-2015. The relief sought there (as described in these proceedings) does not in terms claim a declaration under the Regulations, but that is presumably the case of Intergraph - otherwise it would not be bothering to claim such extensive declaratory relief.

20. On 10th March 2014 Intergraph made its application challenging the jurisdiction of the English court and seeking to set aside the order permitting service out.

Permission to serve out - gateways and requirements

21. The basic requirements for allowing service out of the jurisdiction were not disputed. Fern has to bring its case within one of the gateways in CPR Pt 6, and has to establish a good arguable case that it thus falls. On its actual claim Fern must have a real prospect of success in the sense of there being a serious question to be tried, and England must be the clearly appropriate forum. It was common ground that those requirements needed to be fulfilled, and all of them were in issue in this application. Fern also had an argument for saying

that permission to serve out was not necessary because the court had jurisdiction under the Regulations anyway. Intergraph took a non-disclosure point, but at the hearing before me it was not advanced for the time being as a separate point, and I shall not consider it.

22. It was also not disputed what the standards were that Fern had to achieve. So far as establishing a gateway was concerned, Fern has to show a good arguable case, which means that it must have much the better of the argument or a strong probability that the claim falls within the letter and the spirit of the gateway. So far as the merits are concerned, there must be a serious question to be tried, which is a lower hurdle.

The first gateway - contract governed by English law

23. The first gateway relied on by Fern is that in sub-paragraph (6)(c) of the Practice Direction to CPR 6.

> "(6) A claim is made in respect of a contract where the contract …
>
> (c) is governed by English law."

24. Intergraph's case on this head, distilled down to its simplest form, is that the contract in this case is, by agreement, governed by Texas law. Nothing in the Regulations affects that. It is an unchallengeable proposition. Therefore this gateway cannot be passed through. It applies only where the contract is governed by English law, and this contract is not. The Regulations might be applicable in an EC forum which had jurisdiction, but that is a different point.

25. Fern counters this by relying on the decision of Tugendhat J in *Accentuate Ltd v Asigra Inc* [2010] 2 All ER (Comm) 738 which it says demonstrates that a claim under the Regulations brings the claim within this gateway, because that is what was held there. Intergraph meets this point head on by saying that *Accentuate* was wrongly decided and I should not follow it.

26. There is no doubt that the contract is governed by Texas law. That is provided for by the agreement. The EEC Convention on the Law Applicable to Contractual Obligations (the Rome Convention) has the force of law by virtue of the Contracts (Applicable Law) Act 1990. Article 3 of the Convention provides that a contract shall be governed by the law chosen by the parties, and the parties have chosen Texas law in this case. Thus Texas law governs the contract. If the argument stops there, at a literal level the gateway cannot be passed through. However, Fern says that the argument does not stop there, and there has to be some adjustment to cater for the applicability of the Regulations and the bar on derogating from them in Article 19.

27. The point was addressed in *Accentuate*, albeit briefly. Because I am invited not to follow that case I must deal with it in a little detail. In that case there was a distributorship with an Ontario and Canada choice of law clause and an arbitration clause requiring arbitration in Ontario. The English distributor asserted a claim under the Regulations, and an arbitration (instigated by the licensor, not the distributor) determined that the Regulations did not apply in

determining the rights and liabilities of the parties - those rights and liabilities were to be determined under Ontario law. The English distributor sought to bring a claim within this jurisdiction based on the Regulations, but a district judge set aside a previous permission to serve out on the footing that there was no jurisdiction to hear the claim. It was an appeal from that decision that came before Tugendhat J.

28. Having dealt with the overall merits of the case and found the distributor had a real prospect of success on the facts, Tugendhat J went on to deal with the interaction of the arbitration provision and the Regulations. He cited *Ingmar GB Ltd v Eaton Leonard Technologies Inc* [2001] 1 All ER 329 at 327:

> "24. The purpose of the regime established in Articles 17 to 19 of the Directive is thus to protect, for all commercial agents, freedom of establishment and the operation of undistorted competition in the internal market. Those provisions must therefore be observed throughout the Community if those Treaty objectives are to be attained.
>
> 25. It must therefore be held that it is essential for the Community legal order that a principal established in a non-member country, whose commercial agent carries on his activity within the Community, cannot evade those provisions by the simple expedient of a choice-of-law clause. The purpose served by the provisions in question requires that they be applied where the situation is closely connected with the Community, in particular where the commercial agent carries on his activity in the territory of a Member State, irrespective of the law by which the parties intended the contract to be governed. *(emphasis added by the Distributor)"*

29. The distributor submitted that any contractual choice by the parties that had the practical effect of depriving the commercial agent of his compensation would fall foul of the mandatory nature of regulation 17, whether that provision was a choice of foreign law or the choice of foreign arbitration, and Tugendhat J accepted that submission. He held:

> "88. The decision in *Ingmar* requires this court to give effect to the mandatory provisions of EU law, notwithstanding any expression to the contrary on the part of the contracting parties. In my judgment this must apply as much to an arbitration clause providing for both a place and a law other than a law that would give effect to the Directive, as it does to the simple choice of law clause that was under consideration in *Ingmar*."

30. He then turned to the question of service out and dealt with it very shortly:

> "91. In the light of the foregoing it is necessary to return to consider the provisions of CPR 6.20 under which permission to serve out was obtained.
>
> 92. If the Regulations apply, then the choice of Ontario law cannot be applied to the Distributor's claim for compensation under Regulation 17. It follows that the court must address the question what law does govern

> the claim for compensation under the Regulation. On the facts of the present case, there is no candidate other than the law of England and Wales.
>
> 93. For these reasons, I conclude that the Distributor has a good arguable case that its claim for compensation under the Regulations comes within CPR 6.20(5)(c), and is not defeated by the choice of Ontario law or the Ontario arbitration clause. "

31. CPR 6.20(5)(c) was the then equivalent of sub-paragraph (6)(c) which I have to consider. This appears to be a decision directly in point for the purposes of the present case.

32. Mr Dhillon emphasised the importance of the governing law. He said that nothing in the Regulations over-rode the governing law provision in the contract and pointed to *Bowstead & Reynolds on Agency* 19th Edn at p683:

> "The general scheme of the British Commercial Agents Regulations is therefore that their operation is territorial: they govern the relations between commercial agents and their principles and apply in relation to activities of such agents in Great Britain. There is no statement specifically directed towards the conflict of laws position, but the starting point has to be the normal one, that the Regulations, being part of English law, should only apply where English law is the governing law. But they may also be superimposed as a matter of public policy on contracts governed by other laws where they involve activities in Great Britain: Arts 9.1 and 2 of the Rome I Regulation allow a court to apply overriding mandatory provisions of the law of the forum to a contract governed by another law, and it seems clear that the Commercial Agents Regulations, or at any rate their unexcludable part, rank as such."

33. Mr Dhillon cites other textbook authority designed to demonstrate that the governing law of the contract is unaffected by the Regulations. Thus he cites *Dicey, Morris & Collins on the Conflict of Laws*, 15th Edn at para 32-092:

> "Where an overriding (or peremptory) statute applies regardless of the governing law, the effect of an express choice by the parties of a foreign law to govern their contract is limited to the extent required by the statute. But the express choice is not necessarily rendered invalid, and for purposes unconnected with the statute (e.g. interpretation of the contract, or the conditions for discharge by frustration) the court will apply the governing law of the contract as selected by the parties."

34. Mr Dhillon submitted that these principles were correct and that *Accentuate* set them at nought. I am satisfied that the first half of his proposition is correct, but not the second half. The Regulations do not affect the proper law of the contract. There will be various aspects of the contract that have nothing to do with the Regulations and there is no reason that they should not survive, subject to Texas law. Similarly there are areas of the law in which the Regulations themselves do no purport to intrude - see for example regulation 6 which leaves it to the parties, if they wish, to fix remuneration. So the proper

law can continue to govern. Mr Moser did not submit otherwise. His submission was that English law governed the obligation that was created by the Regulations. I agree with that analysis. The Regulations do not render the choice of law clause otiose. English law does not somehow infect the express contractual terms so as to nullify the choice of law clause. The effect of English law, to be applied by the English courts, is confined to the English law Regulations, which bind the parties so far as their subject matter is concerned, because derogating from some of them is forbidden. So far as any provision of Texas law would otherwise override them then to that extent the proper law of the contract does not have full effect, but it can otherwise apply. *Accentuate* is consistent with this approach. This is demonstrated by paragraph 89 of Tugendhat J's judgment:

> "89. Accordingly, the arbitration clause would be "null and void" and "inoperative" within the meaning of s.9(4) of the Arbitration Act, in so far as it purported to require the submission to arbitration of "questions pertaining to" mandatory provisions of EU law, and Regulation 17 in particular, provided that the Regulations apply at all."

35. So one can focus on the jurisdictional point which Tugendhat J dealt with in two short paragraphs, 92 and 93. He does not say there that English law governs the contract. He found, correctly in my view, that English law governs the <u>claim</u>. Without reasoning further, he held that that was sufficient to get the matter through the same jurisdictional gateway as Fern seeks to pass through in this case. He seems to have thought that "claim" equalled "contract" for the purposes of the rule. Mr Dhillon challenges that equation.

36. Mr Moser's first submission (in terms of logic, not presentation) sought to bring the matter within the service out gateway by saying that the Regulations gave rise to an implication of a term into the contract, and that that term was governed by English law. I do not consider that that analysis works. First, the Regulations do not express themselves as giving rise to an implication. There is simply the imposition of rights and obligations without any reference to implication. Second, if such a term was implied it would become an indivisible part of a Texan law contract and would be as much governed by Texas law as the rest of the contract. So Mr Moser would not squeeze through the gateway in that fashion.

37. His alternative (and obviously preferred) analysis involved interpreting the relevant paragraph of the Practice Direction as catching this sort of claim. He says that this would be an appropriate purposive interpretation and it is said that that must be what Tugendhat J was doing in *Accentuate*. Mr Dhillon says that this does too much violence to the language of the Practice Direction.

38. A close study of the Regulations confirms that they are not themselves directly contractual. They are not superimposed on any existing contract as an actual higher or parallel contract and (as observed above) they are not implemented by means of an implication into the contract. They acknowledge the existence of the contract to which they relate as a separate legal concept (see eg regulations 1(3)(a) and 5(2)) and override it to the extent that there are frequent bars on derogation from the regulations. Any attempt to derogate

from them would be likely to be via a contract, and the effect of the Regulations is to bar the operation of a contract in that respect. So the rights given by the Regulations are definitely not contractual as that word would normally be understood. This conclusion is supported by the speech of Lord Hoffman in *Lonsdale v Howard & Hallam Ltd* [2007] 1 WLR 2055 at paragraphs 3 and 4 where he contrasts the claimant's "contractual entitlement" with his additional "statutory entitlement to compensation". When one goes on to read the rest of the speech, which deals with the manner of calculating "compensation", one can see how far removed from a contract this statutory entitlement is.

39. That creates an obvious difficulty in this gateway. For the purposes of that gateway a claim does not itself have to sound in contract. It has to be a claim "in respect of" a contract, and in my view a claim under the Regulations would fall within that description. However, the contract in question has to be one governed by English law, and the contract in the present case is not so governed. Applying the gateway in this way there would seem to be no way in which Fern can pass through it.

40. The approach of Tugendhat J seems implicitly to approach the matter differently. As I have pointed out, he seems to have equated the rights under the Regulations with an actual contract, as though the claim was not merely one "in respect of" a contract - it was a claim under a contract, and English law applied to that contract. With respect, I do not find myself able to agree with that approach. The claim is undoubtedly one governed by English law, but it is not a claim under a contract and so cannot be brought as such. The gateway requires an English law contract, not an English law claim, and the Regulations do not qualify in that respect.

41. Mr Moser submitted that the word "contract" should be given a broad interpretation so as to give effect to the Directive from which the Regulations flowed (86/653/EEC). English law provisions have to be interpreted in a sympathetic way, or if there are some which stand in the way of the Regulations then they have to be set aside. He submitted that that was in essence what Tugendhat J was doing in *Accentuate*. At my request he took me to *Pfeiffer v Deutsches Rotes Kreuz* [2005] 1 CMLR 44. In that case the ECJ considered the interaction between Directives and national law and the steps which should be taken to align them. It said:

> "110. However, it is apparent from case-law which has also been settled since the judgment of 10 April 1984 in Case 14/83 *Von Colson and Kamann* [1984] ECR 1891, paragraph 26, that the Member States' obligation arising from a directive to achieve the result envisaged by the directive and their duty under Article 10 EC to take all appropriate measures, whether general or particular, to ensure the fulfilment of that obligation is binding on all the authorities of Member States including, for matters within their jurisdiction, the courts (see, inter alia, Case C-'106/89 *Marleasing* [1990] ECR I-4135, paragraph 8; *Faccini Dori*, paragraph 26; Case C-'126/96 *Inter-Environnement Wallonie* [1997] ECR I-7411, paragraph 40; and Case C-'131/97 *Carbonari and Others* [1999] ECR I-'1103, paragraph 48).

…

> 113. Thus, when it applies domestic law, and in particular legislative provisions specifically adopted for the purpose of implementing the requirements of a directive, the national court is bound to interpret national law, so far as possible, in the light of the wording and the purpose of the directive concerned in order to achieve the result sought by the directive and consequently comply with the third paragraph of Article 249 EC (see to that effect, inter alia, the judgments cited above in *Von Colson and Kamann*, paragraph 26; *Marleasing*, paragraph 8; and *Faccini Dori*, paragraph 26; see also Case C-'63/97 *BMW* [1999] ECR I-'905, paragraph 22; Joined Cases C-'240/98 to C-'244/98 *Océano Grupo Editorial and Salvat Editores* [2000] ECR I-4941, paragraph 30; and Case C-'408/01 *Adidas-Salomon and Adidas Benelux* [2003] ECR I-0000, paragraph 21).

…

> 115. Although the principle that national law must be interpreted in conformity with Community law concerns chiefly domestic provisions enacted in order to implement the directive in question, it does not entail an interpretation merely of those provisions but requires the national court to consider national law as a whole in order to assess to what extent it may be applied so as not to produce a result contrary to that sought by the directive (see, to that effect, *Carbonari*, paragraphs 49 and 50)."

42. Mr Moser invited me to apply these sort of principles to the wording of the gateway in the CPR Practice Direction, and to conclude that the "English law contract" gateway should be interpreted so as to catch a claim under the Regulations. At one stage I was tempted by this proposition, but I now do not think it to be right. The principles in *Pfeiffer* might be brought to bear if there are provisions of national law which would otherwise undermine the operation of the Regulations themselves and frustrate one or more of their provisions. However, the particular gateway paragraph under consideration is not such a provision. It does not purport to affect how the Regulations work. It is merely one of the jurisdictional provisions which govern whether the English court will assume jurisdiction. The obligation on a member state to implement the Directive, and to adjust its substantive laws accordingly, does not require a forced construction of this (or any) particular jurisdictional provision.

43. In my view the absence of an English law contract is fatal to the invocation of this gateway. Accordingly I do not think that service out can be justified under this head and I respectfully disagree with the decision of Tugendhat J on the point.

The second gateway - breach of contract in this jurisdiction

44. Paragraph 7 of the Practice Direction allows service out of the jurisdiction in respect of certain breaches of contract:

> "(7) a claim is made in respect of a breach of contract committed within the jurisdiction".

45. The breach relied on by Fern is a failure to pay the moneys due under the Regulations. The claimant says that this breach was committed within the jurisdiction because the obligation on Intergraph was to pay sums due in England and not in Texas, so a failure to pay (here) is a breach here.

46. The first problem with this gateway is the same problem as underlies the previous gateway. The sums are not due in respect of a breach of contract. They are sums due under the Regulations. A failure to pay would be a breach of obligation under the Regulations, but not a breach of contract. Tugendhat J seems to have thought otherwise in his case:

> "94. For the same reasons, I also conclude that the Distributor has a good arguable case that its claim for compensation under the Regulations comes within CPR 6.20(6). If compensation was payable at all, then it was payable in England, and so the breach occurred in England."

47. Again, this reasoning presupposes that a claim under the Regulations is a claim in contract. For the same reasons as those appearing above, I respectfully disagree. I agree that the compensation would be payable in England, but it does not arise "in respect of" a breach of contract. The contract has been performed and terminated. That gives rise to a separate statutory entitlement, not a claim in respect of a breach of contract.

48. That is an end of this point. However, there was some evidence and debate about the place of performance of a contract (in terms of where payment ought to be made) under Texas law. This debate would only matter if the obligation to pay the sums claimed in this case arose under a Texas law contract. Since they do not arise under any contract the debate becomes irrelevant. Furthermore, even if one were to characterise the obligation to pay as somehow being contractual, the relevant contract could not conceivably be the Texas law agency contract. So the debate about Texan law place of payment is irrelevant and I shall not deal with the submissions and evidence advanced in respect of it.

Permission to serve out not required

49. Mr Moser then advanced an argument to the effect that permission to serve out was not required because of the provisions of CPR 6.33. This reads:

> "(3) The claimant may serve the claim form on a defendant out of the United Kingdom where each claim made against the defendant to be served and included in the claim form is a claim which the court has power to determine other than under the 1982 Act, the Lugano Convention or the Judgments Regulation, notwithstanding that -
>
> (a) the person against whom the claim is made is not within the jurisdiction; or
>
> (b) the facts giving rise to the claim did not occur within the jurisdiction."

50. Although this argument should logically come prior to the two gateway arguments, and was the first point taken in his skeleton argument, in his oral submissions Mr Moser described it as his backup argument.

51. The background and basis of this rule was set out in the judgment of Dillon LJ in *In re Harrods (Buenos Aires) Ltd* [1992] Ch 72. It was a case involving an unfair prejudice petition in relation to an English company brought as between foreign shareholders. He considered the legislative background to the predecessor of that rule in the Rules of the Supreme Court, and found it in various statutes which implemented Conventions and other international obligations. At 116C he said:

> "But in my judgment to be within Ord. 11, r. 1(2)(b) [the predecessor of CPR 6.33(3)] an enactment must, if it does not use the precise wording in the rule, at least indicate on its face that it is expressly contemplating proceedings against persons who are not within the jurisdiction of the court or where the wrongful act, neglect or default giving rise to the claim did not take place within the jurisdiction. It is not enough, in my judgment, that the enactment, like the Companies Act 1985, gives a remedy in general cases — against "other members of the company" — without any express contemplation of a foreign element."

52. In the period since that case there has apparently been no questioning of that analysis, and it is set out (in almost the same words) in *Dicey & Morris* at paragraph 11-137. Applying those principles, Mr Moser does not get home. The Regulations certainly do not use the wording of the rule, or anything like it, to confer jurisdiction. Nor do they indicate on their face that they are expressly contemplating proceedings against persons who are not within the jurisdiction. It is unnecessary to set out the whole of the provisions of the Regulations to demonstrate this negative; it is sufficient to state that there is nothing there and Mr Moser was unable to point to any expression which might be a candidate.

53. Accordingly this provision does not operate so as to remove the need to obtain permission to serve the proceedings out of the jurisdiction.

Other grounds for permission to serve out

54. The conclusion that I have reached hitherto is not a comfortable one. The Regulations are plainly intended to have effect, and it must at all times have been foreseeable that some of the parties (if not all parties) to some agency agreements would be foreign entities to whom the Regulations ought to apply because of the territorial nature of the activities - the Regulations apply "in relation to the activities of commercial agents in Great Britain". It is also to be anticipated that international agency agreements will have a jurisdiction clause which might pose the same difficulties as the Texas jurisdiction clause is said to pose in this case. The Regulations prevent opting out of their terms (in the main), but if Intergraph is correct in its apparent case that the Regulations are not enforceable in Texas then unless some other means of permitting an action to be brought in this jurisdiction can be found then Intergraph have managed to achieve an opting out by virtue of having an agreement with no provision

entitling an action to be brought in this jurisdiction and indeed requiring them to be brought in a jurisdiction which (at least according to Intergraph) would not or should not enforce them (though the heart of the present difficulty lies not in the jurisdiction clause but in the inapplicability of the three gateways currently relied on). That would be an odd state of affairs.

55. I have so far dealt with those grounds which were relied on by the claimants. Mr Moser did not advance the possibility that the wrong in question in this case was a tort, not a contractually based matter. However, when analysing the matter Mr Dhillon twice accepted that a breach of statutory duty can conceptually be a tort for the purposes of CPR Part 6. A claim to serve out can be made in respect of a tort where, inter alia, damage is sustained within the jurisdiction. At the hearing Mr Moser adopted the stance that if he failed on other grounds he would seek to amend to put his claim to serve out on this basis. It was common ground that the court can, if it thinks fit, permit an application to be made to introduce a ground not hitherto relied on, and Mr Dhillon pointed to *NML Capital Ltd v Argentina* [2011] 2 AC 495 in that respect. However, he objected to Mr Moser's being allowed to amend and to proceed with the application because he said there had not been proper citation of authority on the point and he would have wished to have had the opportunity to place relevant authorities before me. He did not identify the authorities that he would have wished to have brought.

56. If, as I think I detect Mr Dhillon to have been accepting, the failure to pay the sums due under the Regulations is breach of statutory duty equivalent to a tort, I am not sure what authorities Mr Dhillon would have been able to bring to resist the apparent conclusion that damage has resulted in this jurisdiction (because Fern has not been paid here) but the point was not ultimately argued properly before me. There remains, in my view, a real point to be considered here. It may be that in this point lies the answer (or part of it) to the anomaly that I have suggested above might otherwise arise in relation to claims under the Regulations in some cases of parties domiciled out of the EU. If and insofar as the jurisdiction point might turn on this gateway (having considered other matters such as the merits) then I would be minded to adjourn the case to allow the point to be argued.

57. There is one further gateway that neither party argued about. Although Mr Moser sought to justify his service out without leave by reference to CPR 63.33(3) (see above) he did not seek to justify them by reference to gateway 20:

> "(20) A claim is made -
>
> (a) under an enactment which allows proceedings to be brought and those proceedings are not covered by any of the other grounds referred to in this paragraph …"

58. The wording of this gateway is different from the wording of CPR 6.33(3), and I have wondered whether a claim under the Regulations could pass through it. It may or may not be that if this application is restored to consider

the tort gateway then this ground, as a further alternative, might be invoked to deal with the apparent anomaly. That will be a matter for Mr Moser.

The merits - whether there is a real prospect of success

59. Strictly speaking this point does not arise (or at least not yet) since I have found that Fern cannot pass through any of the propounded gateways. However, there may be other gateways available, and if one or more of them is available then the merits of the claim would become relevant. Since I heard full argument on the point it is appropriate for me to make a ruling on it, so that it is in place if Mr Moser seeks to open other doors, and in case my decision on the absence of present gateways is taken further.

60. It is common ground that the claimant must establish that there is a real prospect of success on the merits in the sense of a prospect which is better than merely fanciful – a serious question to be tried. This requirement raises a number of issues which have to be considered. Mr Dhillon submitted that there were various areas of the case in which the absence of a real prospect of success meant that the merits could not be established to the relevant standard. They were:

(a) Under the Regulations a commercial agent is appointed to negotiate the sale and purchase of "goods". What Fern was selling was software products, not goods, so it was not a commercial agent within the Regulations.

(b) Such things as Fern was authorised to deal in were licensed, not sold.

(c) Fern's activities were "secondary activities" within the meaning of regulation 2(3).

(d) In addition to licensing software products, Fern provided upgrading, maintenance and support services ("UMS"). This did not involve a sale of goods within the meaning of the Regulations either, and were secondary as well.

(e) A claim under the Regulations is confined to "activities of commercial agents in Great Britain" (regulation 1(2)). The evidence is said to show that some of Fern's activities took place outside that area, so no claim can be made in respect of those activities.

(f) Part of Fern's claim is for unpaid commission. That claim is said to be culpably unparticularised, and is a fishing expedition without merit.

The merits - whether there is a sale of <u>goods</u>, as opposed to something which is not goods

61. In considering this point I shall assume there is a sale, as opposed to a licence. A separate point about that is dealt with below. The question at this stage of the argument is as to what it is that is sold.

62. At the heart of this point is how the software in this case is supplied and controlled. It is supplied on physical media (CDs or CD-ROMs) and there is a physical ESL (Electronic Software Lock - a dongle which fits into a USB port - see above). The evidence of Fern does not dispute this, save that it adds some documentation to the items provided - it suggests (but does not make it totally clear) that some manuals might be included (it is clearer that necessary documentation was in any event included on the CD-ROM). If an upgrade was provided, this was provided on a new CD-ROM but the ESL was not physically renewed - it was updated via transmitted software codes. If the ESL was lost or damaged it could be replaced, but only at the cost of the entire software package.

63. The essence of Intergraph's case is that the supply of these physical things (hardware) does not make the agency one relating to the sale of goods, because the agency agreements are said, on their true construction, not to relate to the supply of these items (as opposed to the software), and in reality they are not the subject of the transaction. The customer was not paying for these physical items. The subject of the transactions which the claimaint brought about was software, which is not "goods". Mr Dhillon analysed the agency agreement in order to seek to establish what is sold. He emphasised that what was sold was described as "Software Products". Nowhere is there a suggestion that that description was to include any hardware (or goods). Set out above are the particular clauses on which he relied in making that submission. He also adopted his deponent's analysis that the CD-ROM was packaging for the main thing sold (software).

64. He also reinforced his client's case by reference to the licence agreements which were relied on as having been entered into with end users as a result of the acquisition via Fern. Unfortunately the evidential position in relation to licence agreements is unsatisfactory. It was Intergraph which first exhibited a licence agreement as part of its evidence in support of its application. It exhibited only one - a 2010 version. In its response evidence Fern challenged whether that licence agreement was ever issued, at least during its agency, and exhibited a 2009 version covering certain products. The licensing position prior to that time is uncertain, but neither of those two agreements can have governed transactions during the period between the inception of the relationship and 2009. The overall picture of the relationship is therefore unclear. However, since the parties made submissions based on the licence agreements I shall briefly consider them.

65. The 2010 version defines "Software Product":

> "Software Product includes computer software and all of the contents of the files, disks(s), CD-ROM(s) or other media with which this Software Licence Agreement is provided, including any templates, data, printed materials, and "online" or electronic Documentation, or copies, and any upgrades, modified versions, and updates (which will be provided if the Software Product is covered under a current Software Maintenance Service Contract) of the Software Product."

66. Mr Dhillon relies on this definition as demonstrating that the Software Products are the intellectual property owned by Intergraph, and the physical media are not themselves Software Products. Insofar as that definition seems to include at least some physical element in the form of "printed materials", a later Performance Warranty provides that:

> "... the Software Product shall perform substantially in accordance with the Documentation supplied with the particular software."

67. Mr Dhillon relies on the reference to "Documentation" as demonstrating that documents are actually not included within the meaning of Software Product. So far as the ESL is concerned, the definitions provide that:

> "ESLs are used in conjunction with the Software Products to provide concurrent license usage control."

This is said to demonstrate that the ESL is not to be equated with the Software Product.

68. The 2009 licence is in different terms and refers to "Licensed Program(s)" instead of Software Products. “Licensed Program(s)” is stated to be a shorthand for "the enclosed proprietary and coded materials". The licence allows use of the Licensed Program(s), and that expression is later defined, in the warranty provision as "the tangible proprietary software". The warranty also provides that:

> "the CD(s), i.e. the tangible physical medium on which the Licensed Program(s) is furnished, [is] free from defects in materials and workmanship under normal use ...",

69. Again Mr Dhillon emphasises the distinction between the physical medium and software. All these provisions are said to demonstrate that what is being sold (licensed) is the software product and not the hardware medium on which it is provided (or the documentation with it), and is not the ESL. The software is not "goods".

70. Mr Moser's first argument was that on the authorities it was at least arguable, if not correct, that software was capable of being, and should be treated as being, "goods" for the purposes of this (and perhaps other) legislation. If that argument failed, then he relied on the fact that the physical (tangible) parts of the package provided to end-users (the CDs, documentation and ESL) amounted to goods in any event and there was thus a sale of goods in any event.

71. The first authority is *European Commission v Italy* [1968] ECR 423. That case concerned articles of historic or artistic interest, and a licensing and taxation regime imposed on them. In that context the Republic of Italy sought to argue that the articles in question were not “consumer goods or articles of general use". The ECJ opined:

> "Under Article 9 of the Treaty the Community is based on a customs union 'which shall cover all trade in goods'. By goods, within the meaning of that provision, there must be understood products which can be valued in money and which are capable, as such, of forming the subject of commercial transactions."

72. Mr Moser sought to say that this was an EU definition of "goods", and that there was at least a good arguable case that it should apply to the Regulations, whose source was in European legislation. It was wide enough to cover software and was not confined to physical chattels.

73. I do not think that that case is, by itself, of any real assistance to Mr Moser. His case must depend on the use of the word "products" in place of "goods" in the passage cited, and invites the conclusion that the use of that word means that the Court was extending the use of the word "goods" into the realms of the intangible. That is not a fair analysis. The word "products" might be thought to present precisely the same difficulties as "goods" in its application to intangibles. In any event, the Court was not considering the sort of distinctions that arise in this case. It was having to consider an argument that the items in question in that case were not the sort of consumer items, or "articles of general use", to which the Treaty was said to apply. In making its statement the Court was plainly making a statement about the generality of physical items to which the Treaty applied and disallowing a carve-out of items with some sort of special quality. In other words it was saying that there was no basis for distinguishing between different types of physical chattels. The use of the word "products" cannot be taken any farther than that.

74. The Regulations implement the Directive. The Directive itself refers to "goods" throughout, so it would be right to say that the expression used in the Regulations is not necessarily confined to traditional English views of its meaning. If there were indications in the Directive that it was to have a wider meaning then it would be right to construe the Regulations appropriately. However, there is nothing in the wording of the Directive which sheds any light on the meaning of goods, and I was not shown anything in any other relevant European jurisprudence which would of itself justify extending "goods" to software, though one can well imagine policy reasons for doing so. Accordingly, though I wondered whether there was something in the European context which would justify a wider interpretation of "goods", so as to indicate at last a serious question to be tried, there is no European guidance on the point. So this particular line of argument does not, on the material that I have seen, demonstrate a serious issue to be tried. Having said that, however, it is apparent to me that there could be policy arguments which might persuade the European Court that, on a policy basis, "goods" should bear a wide interpretation, particularly bearing in mind that the present digital age has demonstrated a widespread use of the download of digital material which does not correspond to a traditional view of "goods" but which has the same net effect as the provision of physical media – downloads of books and music spring to mind. There would be sound policy reasons for extending to downloads the effect of provisions which would apply to physical carriers of the same material (books, vinyl records and music CDs). However, in the end

I do not have to reach a decision on this point in the light of the decision that I reach below in the light of the provision of physical material.

75. Mr Moser's next line of attack was to rely on the fact that chattels (the CDs, documentation and the ESL) were supplied as part of the overall package, and he relied on English authority as demonstrating that that gave him at least an arguable, if not a good, claim that goods were supplied.

76. In *St Albans City and District Council v International Computers Ltd* [1996] 4 All ER 481 the defendant had supplied software to the claimant Council and the Council complained that the software was faulty. The Court of Appeal affirmed the view of the trial judge that the defendant was in breach of an express term in the relevant contractual agreement. It was therefore unnecessary for the court to consider an argument based on the Sale of Goods Act 1979, but Sir Ian Glidewell expressed some views on the point which are relevant to the issue in this case. Nourse LJ agreed with those views (see page 487j), as did Hirst LJ.

77. The question which had to be answered in considering that part of the case was, in the words of Sir Ian Glidewell at p482G:

> "Is software goods?".

78. It is apparent from what follows in that case that what was supplied was, as in the present case, a programme on hardware (a disk) which enabled the program to be loaded onto the council's equipment. Sir Ian said:

> "In both the Sale of Goods Act 1979 s.61 and the Supply of Goods and Services Act 1982 s.18 the definition of "goods" is "includes all personal chattels other than things in action and money". Clearly a disc is within this definition. Equally clearly, a program, of itself, is not."

79. If goods were supplied, then the implied terms in the two Acts applied. Sir Ian went on to consider what would happen if a faulty program was supplied on a properly functioning disk.

> "If a disc carrying a program is transferred, by way of sale or hire, and the program is in some way defective, so that it will not instruct or enable the computer to achieve the intended purpose, is this a defect in the disk? Put more precisely, would the seller or hirer of the disc be in breach of the terms as to quality and fitness for purpose implied by s.14 of the1979 Act and s.9 of the 1982 Act? Mr Dehn QC, for ICL, argues that they would not. He submits that the defective program in my example would be distinct from the tangible disc, and thus that the "goods" - the disk - would not be defective.
>
> There is no English authority on this question, and indeed we have been referred to none from any common law jurisdiction. The only reference I have found is an article published in 1994 by Dr. Jane Stapleton. This is to a decision in Advent Systems Ltd. v. Unisys Corporation (1991) 925 F 2d 670 that software is a "good"; Dr Stapleton notes the decision as being

reached "on the basis of policy arguments." We were referred, as was Scott Baker J, to a decision of Rogers J in the Supreme Court of New South Wales, Toby Construction Ltd. v. Computa Bar (Sales) Pty. Ltd. [1983] 2 NSWJR 48. The decision in that case was that the sale of a whole computer system, including both hardware and software, was a sale of "goods" within the New South Wales legislation, which defines goods in similar terms to those in the English statute. That decision was in my respectful view clearly correct, but it does not answer the present question. Indeed Rogers J specifically did not answer it. In expressing an opinion I am therefore venturing where others have, no doubt wisely, not trodden.

Suppose I buy an instruction manual on the maintenance and repair of a particular make of car. The instructions are wrong in an important respect. Anybody who follows them is likely to cause serious damage to the engine of his car. In my view the instructions are an integral part of the manual. The manual including the instructions, whether in a book or a video cassette, would in my opinion be "goods" within the meaning of the 1979 Act, and the defective instructions would result in a breach of the implied terms in s.14.

If this is correct, I can see no logical reason why it should not also be correct in relation to a computer disc onto which a program designed and intended to instruct or enable a computer to achieve particular functions has been encoded. If the disc is sold or hired by the computer manufacturer, but the program is defective, in my opinion there would prima facie be a breach of the terms as to quality and fitness for purpose implied by the 1979 Act or the 1982 Act."

80. He went on to find that on the facts before him no disk was supplied – the engineer who installed the software used his own disk. Accordingly, only the software was supplied and, in line with his reasoning, that did not fall within the definition of "goods" in the two statutes in question.

81. Obviously, on the question of whether software by itself can be "goods", this case does not assist Mr Moser. However, it should be observed that it does not necessarily hinder him either, because, on that point, it can be distinguished because there was a clear definition of "goods" which inevitably excluded software by itself. Putting that on one side, what is significant in this case for present purposes is the finding that a sale of software which takes place by virtue of the supply of a disk which contains the software is a sale of "goods" by virtue of the presence of the disk. That does assist Mr Moser. Although that determination is strictly obiter, being unnecessary to the decision which had already been reached on the express term of the contract, it should be afforded significant weight.

82. That case was referred to in *London Borough of Southward v IBM UK Ltd* [2011] EWHC 549 (TCC). That was another case in which software supplied to a local authority was said to be unsatisfactory and otherwise unfit for purpose. A claim was made under the Sale of Goods Act 1979, based on the statutorily implied terms. Akenhead J found that there was no sale at all

because there was no transfer of property in anything (para 95). That was sufficient to deal with that part of the case. However, he went on to consider (obiter again) whether software could be goods for the purposes of the Act. At paragraph 96 he decided that:

> "In principle software could be 'goods' within the meaning of that Act."

However, the reasons which then follow demonstrate that he was not considering software per se. He was considering software supplied on a CD. He acknowledged that a CD with nothing on it would be goods even if of little value; that a CD with what he described as "electrons" impressed on it so as to carry "functions and values" (such as a music CD) must still be goods; and there was no difference between that and a CD containing software (para 96). He went on to conclude (para 97) that if there was a transfer of property then:

> "I can see no reason why in principle software that is so transferred cannot be "goods" for the purposes of the Act."

83. Thus he was prepared to find that a CD containing software was "goods".

84. I do not need to decide whether that analysis is correct, but in my view there is a lot to be said for it and I would, if necessary, have been minded to agree with it. Although the reasoning was used in connection with the 1979 Act, it is at the very least arguable that it applies to the Regulations.

85. In *Accentuate* there was a supply of software, but there was also the provision (to use a neutral word) of hardware in the form of a "DS-Key", which seems to be the same sort of thing as an ESL in the present case (see para 43). The effect of the judgment of Tugendhat J at paragraphs 55-60 is that he considered that the supply of that form of hardware was arguably the supply of goods within the Regulation, though the terms of the contract were different and referred to the hardware differently. He did not seem to consider that the dongle was plainly somehow subsidiary to the "real" supply of software.

86. The effect of all this authority, and of the principles underlying the argument in those cases, is that where software is supplied on CDs there is a real prospect of success in arguing that that is the supply of goods. Where that supply is accompanied by a physical dongle and documentation then the argument is even stronger. While there is an argument that what is really being supplied is software, which is not goods, that argument is not so strong as to make the contrary argument unsustainable. Indeed, if I had to decide it I would probably decide that it is wrong, but I do not have to go that far. I bear in mind that the Regulations do not contain a definition of goods corresponding to the Sale of Goods Act, and that the analysis of the expression is not constrained by reference to the word "chattels", so it becomes easier to argue that such a supply is the supply of goods.

87. I therefore find that the argument that the sale in the present case (if there was a sale) was a sale of goods raises a serious question to be tried and passes the merits test for service out.

The merits - was there a sale as opposed to some other transaction

88. Mr Dhillon's next point on the merits is that there was not a "sale" (or purchase) as required by the Regulations. His point is that what was provided to the customers was a licence, not a sale. In this respect he relies on the two licences (2009 and 2010) which provide for licensing, not sale, of the software (or the right to use it) and which are said not to provide for the sale of any of the hardware, for which the customer does not pay.

89. Mr Moser counters this in two ways. First, he says that there is a good argument for saying that the concept of sale in the Regulations has an autonomous meaning and, on the basis of one particular authority, ought to be held to include a licence of the kind occurring in this case. Second, he says that whatever the licence might say about the software, there was something amounting to a sale of the hardware involved.

90. Mr Moser's first argument turns on the ECJ decision in *Usedsoft Gmbh v Oracle International Corp* [2012] 3 CMLR 44. That case concerned the concept of "sale" in a Directive concerning the protection of computer programs. Among its provisions was one which provided that the first "sale" in the Community of a copy of the program by the rightholder would exhaust the distribution rights within the Community of that copy. The first question addressed by the Court (at paragraphs 35ff) was whether the downloading of a program over the internet gave rise to an exhaustion of rights, and in order to consider that the Court embarked on a consideration of whether that was a "first sale" of a copy of the program. In that context it determined that "sale" in the Directive was an autonomous concept (paragraph 40), and at paragraph 43 it recorded the submission of Oracle that what it entered into was a licence not a sale. This point was decided against Oracle. The Court held:

> "45. As regards the question whether, in a situation such as that at issue in the main proceedings, the commercial transactions concerned involve a transfer of the right of ownership of the copy of the computer program, it must be stated that, according to the order for reference, a customer of Oracle who downloads the copy of the program and concludes with that company a user licence agreement relating to that copy receives, in return for payment of a fee, a right to use that copy for an unlimited period. The making available by Oracle of a copy of its computer program and the conclusion of a user licence agreement for that copy are thus intended to make the copy usable by the customer, permanently, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor.
>
> 46. In those circumstance, the operations mentioned in [44] above, examined as a whole, involve the transfer of the right of ownership of the copy of the computer program in question."

91. It decided that there was no difference between the supply over the internet and supply via a physical medium such as a CD-ROM.

"47. It makes no difference, in a situation such as that at issue in the main proceedings, whether the copy of the computer program was made available to the customer by the rightholder concerned by means of a download from the rightholder's website or by means of a material medium such as a CD-ROM or DVD ... Since an acquirer who downloads a copy of the programme concerned by means of a material medium such as a CD-ROM or DVD and concludes a licence agreement for that copy receives the right to use the copy for an unlimited period in return for payment of a fee, it must be considered that those two operations likewise involved, in the case of the making available of a copy of the computer programme concerned by means of a material medium, the transfer of the right of ownership of that copy.

48. Consequently, in a situation such as that at issue in the main proceedings, the transfer by the copyright holder to a customer of a copy of a computer program, accompanied by the conclusion between the same parties of a user license agreement, constitutes a "first sale… of a copy of a program" within the meaning of art.4(2) of Directive 2009/24.

49. As the A.G. observes in point AG59 of his Opinion, if the term "sale" within the meaning of art.4(2) of Directive 2009/24 were not given a broad interpretation as encompassing all forms of product marketing characterised by the grant of a right to use a copy of a computer program, for an unlimited period, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which he is the proprietor, the effectiveness of that provision would be undermined, since suppliers would merely have to call the contract a "license" rather than a "sale" in order to circumvent the rule of exhaustion and divest it of all scope."

92. Mr Moser submitted that this reasoning applies to the present case even though it concerns a different Directive, so that it is at least arguable that a licence for these purposes includes a sale.

93. It has to be acknowledged that the *Usedsoft* case involved a different Directive with potentially different underlying considerations. It was a Directive dealing specifically with computer programs, and it must be taken to be well known that licences apply in many cases to the supply of such programs. As paragraph 49 of the judgment observes, the effectiveness of the Directive would have been undermined if "sale" were not given a broad meaning so as to catch licences. Those specific considerations do not apply to the Regulations or to the Directive which they implement. The Regulations concern all goods, not merely those related to computer programs. However, despite that, it is in my view arguable that "sale" and "purchase" in the Regulations should have an autonomous meaning and should not be confined to the concepts of transfer of property which underpin the Sale of Goods Act and would be capable of applying to a transaction based on a licence. While the concept of licensing might not be widespread in relation to goods other than those associated with computer programs, the observations in paragraph 49 of the *Usedsoft* judgment might apply to the Regulations as well. It may be that that point would have to be the subject of a reference when all the facts

are determined, but I do not need to determine that. Nor do I need to determine whether or not the argument is actually correct. It is sufficient if the point is arguable enough to give rise to a serious question to be tried, and I hold that it is.

94. The decision in *Usedsoft* seems to depend on the licence being for "an unlimited period". If the successful argument in that case is to be deployed on the facts of the present case there must be case for saying that the licence or licences in the present case were similarly unlimited in time. I have referred above to the limited nature of the evidence in this case. There are no pre-2009 end user licences. However, the evidence does give rise to a serious question to be tried as to whether the licences were unlimited. The 2009 licence expresses itself as being effective until terminated "in accordance with the terms of this Licence Agreement". The circumstances which the licence specifies as giving rise to a termination are the transfer of possession of any copy of the "licensed program(s)" to a third party (without procuring that the third party became subject to the terms of the licence), a voluntary termination by the end user by destroying the material, and an "automatic" termination in the event of a failure to comply with any term or condition of the agreement. It is otherwise perpetual. That would appear to be an "unlimited" licence in accordance with the reasoning in *Usedsoft*. The 2010 licence introduces the concept of time-limited licences because it provides for two types of licence - a perpetual licence and a lease licence (one granted for a specified time duration). However, there is no evidence that these licence terms were ever in operation in relation to Fern's customers before the termination of the agreement, and even less that there was ever a lease licence. There is, in my view, a serious question to be tried (at the very least) as to the perpetual nature of the licences with end users.

95. For the sake of completeness I should mention the decision in *Southwark*. In that case Akenhead J held that the provision of things under a licence was not a sale for the purposes of the Sale of Goods Act 1979. That is a decision under that Act, and does not require the same conclusion to be reached for the purposes of the Regulations.

96. Accordingly, if the hardware (CD-ROMs and ESLs) were merely licensed and not sold then there is a serious question to be tried as to whether that comes within the concept of sale of goods for the purposes of the Regulations. It also seems to me to be arguable that in any event the hardware is not itself licensed, but is supplied in a more absolute way. There is no provision for the return of the hardware if the licence is determined, and there is a good case for saying that it is sold, not licensed. It was certainly not given away. For that reason, too, there is a good case for saying that it was sold.

The merits - were the activities of Fern merely "secondary" within the meaning of the Regulations?

97. Under regulation 2(4) the Regulations do not apply to the persons whose activities as commercial agents are considered "secondary". The provisions of the Schedule are looked to to ascertain whether the activities fall within that category (Regulation 2(3)). Intergraph's submission on this is that insofar as

the activities of Fern amounted to the sale of goods, those activities were secondary so that the Regulations do not apply to them.

98. This argument depends on it being appropriate to separate out the hardware that was provided (CDs, ESLs), to treat them as the "goods" sold, to treat the supply of software as not being the supply of goods, and to treat the two elements as being separate. Once that is done the "goods" are said to be secondary because their sale cannot be said to fulfil the requirements of the schedule. It is said that procuring a transaction which involves the sale of CDs and ESLs on one occasion is not likely to lead to other similar transactions with the same customers or with other customers in the same geographical area (paragraph 2(b)(ii)). The sale of the goods did not generate goodwill in the sale of those goods because no customer would be interested in buying CDs and ESLs as such. The real goodwill lay in the sale of the software.

99. Mr Dhillon drew a parallel with the facts of *Crane v Sky In-Home Service Ltd* [2007] 1 CLC 389. In that case the claimant was an authorised sales agent of the Sky broadcasting company. There were two relevant agency agreements - one governing the sale of subscriptions to Sky's services and the other governing the supply of set top boxes and satellite dishes (hardware) to those customers. The first was accepted to be outside the scope of the Regulations because it governed services rather than goods. The second was capable of being one which fell within the Regulations in terms of its subject matter, but it was held to be secondary. Briggs J summarised the effect of paragraph 2(b)(ii) of the Schedule in terms of goodwill:

> "63. Sub-paragraph (ii) raises a central issue in dispute. It encapsulates the concept that the sale of the particular goods by the agent must generate goodwill, i.e. the attractive force that brings in repeat custom, either from the same customer or from others. The question is to be answered by reference to the nature of the goods concerned, as the opening words of paragraph 2(b) make clear.
>
> 64. The central theme of SHS's [Sky's] case in relation to the Schedule (both by way of evidence and submission) was that the goodwill leading to repeat custom was generated not by the sale of the Box Package, but by the sale of the Sky Digital subscription. Assuming without accepting that the activities of an ASA generated the relevant goodwill, Mr Dhillon [counsel for Sky] submitted that it was the ASA's sale of the Sky Digital service which generated repeat orders for Box Packages [the hardware], whether from customers replacing old ones which had broken down or extra ones for other rooms, or from friends and neighbours. That sale of the Sky Digital service was neither part of the arrangement between Mr Crane and SHS, nor something which the Regulations were intended to deal with at all, since agencies in relation to the sale of services are excluded altogether."

100. Briggs J found in favour of this argument:

> "66. In my judgment SHS is correct about this. The starting point is to ask what it is that leads a customer to buy a Box Package. The obvious

> reason is that he wishes to view programmes on his television which he cannot view without one. The relevant programmes that he wants (or programme mix that he prefers) are broadcast from the Sky satellite. He cannot view them without paying a subscription. But to ensure that only paid up subscribers can view programmes broadcast from the Sky satellite, the Sky Group cause the signal to be encrypted in such a way that it can only be decoded by a set top box that has been enabled by the installation engineer and activated by the insertion of the appropriate smart card. The customer could probably buy an equivalent dish aerial and low noise block elsewhere, but the set top box has to be one of the three types which the Sky Group make available, directly or through the distribution network which I described in my judgment in the passing off action. The distribution network for the basic set top box forming part of the Box Package includes COPA.
>
> 67. It seems to me to be unreal to describe the Box Package as playing any significant part in the generation of goodwill in the sale of further Box Packages. The Box Package is like the key which unlocks the attractive new car. The point may be tested by asking why an existing customer might want a new or further Box Package, or, more realistically, set top box. If his existing box has broken down (and is not warranty protected) he will not buy a replacement because he liked the old box. He will probably thoroughly dislike it. He buys the new box to unlock the programme stream which he wishes to go on viewing, and for which he is paying a subscription. If he buys a further box, (necessary to watch different broadcasts on different televisions, but not the same broadcast on two), it is precisely because his family's thirst for the programme stream is not assuaged by them all watching the same Sky broadcast together, or even in different rooms.

…

> 70. I therefore conclude that Mr Crane's case fails to surmount the hurdle presented by paragraph 2(b)(ii). Whatever the commercial interests of SHS which led to Mr Crane's appointment, they were not derived from a likelihood that sales of Box Packages would lead in any causative sense to further such sales. Mr Crane's arrangement with SHS must have had a primary purpose different from that described in paragraph 2, and must therefore be considered secondary within the meaning of paragraph 1."

101. Mr Dhillon submitted that this sort of reasoning applied in the present case. The goodwill which arose in the present case arose because of the sale of the software, not from the sale of the small bits of hardware that accompanied it. What the customer was paying for was the software, not CDs and ESLs. The latter were entirely subsidiary to the former. There was no primary purpose of selling goods in the Fern/Intergraph relationship. The primary purpose was the sale (licensing) of software.

102. I do not consider that Mr Dhillon is obviously correct in his arguments. There is no complete parallel with *Sky* because in *Sky* there were two contracts, and two agencies. The primary agency was held to be the subscription-related

agency. The agency for sale of goods was secondary to that because it failed to pass the test in the schedule. In the present case there was just one contract and one agency. What was sold was a package. It is arguable that that package was a sale of goods within the Regulations. Those goods were not just a blank, and therefore pointless, CD or a blank, and therefore pointless, ESL. Those items carried the software and unlocking codes respectively. They were the medium via which the software was carried and unlocked. That was part of the agency. They cannot be split out as being separately sold, and then analysed for their primary or secondary qualities. There wasn't an agency for software and an agency for goods. There was an agency for selling a package.

103. There is therefore a serious question to be tried in relation to the question of whether the agency for the sale of goods was primary or secondary. I do not need to develop the point any more than that.

The merits - UMS Contracts

104. The relevance of this point, raised by Mr Dhillon, and indeed some of the evidence, was somewhat hard to follow. The evidence was that Fern entered into support contracts with end users, to provide certain support for the Intergraph product which the user had acquired. These services have acquired the acronym UMS. The services included the supply of upgraded versions of the product originally acquired by the end-user (supplied on another CD), periodic maintenance releases (downloaded from Intergraph's website) and other support services. New versions of the software had to be paid for. Some maintenance services involved the provision of the re-written software product on a CD.

105. Mr Dhillon's first point was that a large part of Fern's claim for compensation includes compensation for the loss of these activities. That sounds to me like a complaint about quantum, not the cause of action. The pleaded cause of action is the termination of the commercial agency whose terms are evidenced by the 2007 document. There is no separate pleaded claim in relation to UMS services. Whether or not the compensation required by the Regulations allows the UMS activities to be used as an element in the compensation will be a matter for trial. It does not go to the cause of action and therefore does not go to the question of service out of the jurisdiction.

106. He also took the point that upgrade and maintenance services do not involve a sale of goods within the meaning of the Regulations. In my view that is debatable in relation to the provision of a new version on CD-ROM, but the complete relationship between support activities, the UMS contract (between Fern and the end user) and the agency agreement is unclear. On one analysis it is a separate contractual relationship between the end user and Fern, and has nothing to do with the agency in contractual terms. I note that clause 2(f) of the 2007 agreement requires Fern to provide support activities, apparently in its own right. If that is right then these activities are irrelevant to the debate. If it is something to do with the commercial agency, then Mr Dhillon submitted that there was a clear case for saying that UMS support activities were a secondary activity and outside the scope of the Regulations. However,

in my view separating out part of the activities and branding them as secondary is not a relevant activity for the purposes of the Regulations. The focus must be on the terms of the agency agreement and the "person" carrying them out (see Regulation 2(3) and (4)), not on a dissection of activities under it. Mr Dhillon's reliance on this point is misplaced.

107. Accordingly, since the UMS activities are not relied on as a separate cause of action under the Regulations, and since their presence does not affect any of the reasoning as to the arguability of the real claim as set out above, this point is an irrelevance and does not assist (or hinder) the case of either party.

The merits - activities in Great Britain

108. Regulation 1(2) provides that the Regulations govern the relations between commercial agents and their principles "in relation to the activities of commercial agents in Great Britain". Intergraph takes the point that Fern has been selling its products in European countries other than Great Britain (which it has) and says that insofar as its activities fall into that category then the Regulations do not apply to them. Mr Dhillon submits that the English court does not have jurisdiction to hear a claim in respect of non-GB activities, that is to say activities carried out in jurisdictions other than Great Britain. He submits that the appropriate course would be to limit the permission to serve out so that it expressly did not cover such a claim, or to set aside the order permitting service out and require Fern to make the more limited claim - he was prepared to accept the former. In support of his submission Mr Dhillon invoked one sentence in paragraph 11–012 of Bowstead and Reynolds on agency, 19th edition:

> "Where an agent conducts activities in several jurisdictions, the Regulations presumably apply only in respect of the activities in Great Britain."

109. In considering this point the first thing to do is to establish whether or not Fern is making claims in respect of both GB-based activity (which it is plainly doing) and non-GB-based activity. This is not immediately apparent from the Particulars of Claim. The Particulars rely, in terms on the express wording of Regulation 1(2), with its reference to activities in Great Britain. There is no explicit suggestion that it covers activities outside Great Britain. However, there are at least two implicit references to such activities. The first is paragraph 6, which contains reasons why the English court should exercise jurisdiction:

> " … England is the place of the main provision of the relevant services…"

110. That suggests that some of the services are provided outside England (though they may still be provided in Great Britain). The second is the incorporation by reference of an expert valuation of the company upon which Fern pleads reliance, in paragraph 17, in support of its claim for compensation under the Regulations. That calculation is apparently based on the whole of the business of Fern, and the evidence, though not the pleading, states that Fern's agency started in the UK but was subsequently extended into Europe. It is therefore

implicit that the claim is calculated by reference to activities carried out in relation to territories other than Great Britain.

111. However, it does not follow that the pleaded claim is one which is based on activities which are sufficiently foreign-based to mean that they are not activities of Fern in Great Britain. It may be that the agency activities carried out in relation to non-GB territories are actually carried out sufficiently in Great Britain to qualify as "activities… in Great Britain" for the purposes of the Regulations. The thrust of the pleading, whether intended or not, is that it makes a claim only in respect of "activities of [Fern] in Great Britain". That being the case, there is nothing for Mr Dhillon's point to bite on. What is pleaded is a claim made in accordance with the Regulations, together with an express reference to "activities… in Great Britain". That is the claim that has to be considered for these purposes. That does not include matters which do not count as “activities … in Great Britain”. If, during the course of the case, Fern advances a claim based on matters which are not activities in Great Britain, then those matters will not be part of the claim as currently pleaded.

112. Accordingly, Mr Dhillon's point is aimed at a target that does not exist and therefore fails.

113. Mr Moser did not seek to meet the point in that way. He sought to justify the making of a claim which included activities not carried out in Great Britain, presumably asserting that such claims were within his Particulars of Claim, by submitting that Regulation 1(3) extended the reach of the Regulations to activities beyond Great Britain. That, he says, is the effect of that paragraph, which was introduced by amendment, apparently to deal with that very problem.

114. In support of that ostensibly unpromising submission he relies on the narrative in Randolph and Davey on The European Law of Commercial Agency, 3rd edition. At pages 28-30 the authors set out the following:

> “Regulations 1(2) and 1(3) as amended set out the position as regards applicable law, where there is a choice-of-law clause and that choice is an EU law. If the parties chose English or Scottish law, then the Regulations will apply irrespective of where in the EU the agent carried out its activities. This follows Regulation 1(3)(b) as amended, which provides: [set out].
>
> “Regulation 1(3)(b) arose by way of amendments to the original Regulations… As the amendment itself is not overly clear, the Explanatory Note to the relevant Statutory Instrument comes as welcome relief through its brevity and clarity. It provides in relevant part as follows:
>
>> 'Following representations made by the EC Commission to the effect that the earlier regulations did not deal with the case where the parties expressly agreed that the law of any part of the United Kingdom was to apply to the contract between them and that a court in the United Kingdom was to have jurisdiction but the activities of

> the agent were to be carried out elsewhere in the Community, these regulations seek to put the matter beyond doubt in relation to Great Britain. Whether or not it would otherwise be required to do so, a court or tribunal is required to apply the regulations in the case mentioned above, provided that the law of the other member states so permits.'

"Thus, as long as the EU law of the place of performance allows for another applicable law to be chosen by the parties, then the Regulations will apply in such a situation. If, on the other hand, the parties chose the law of another Member State, then the Regulations will not apply and the implementing provisions of the Directive in that other Member State will apply instead. This arises from Regulation 1(3)(a) which provides: [set out]."

115. I have to say that for my part I do not understand how the drafting has the desired effect. It does not say anything about the place of performance. It seems to deal with choice of law questions. The only thing which suggests that the place of performance might be relevant is the wording of Regulation 1(2), which expresses itself to be "subject to paragraph (3)". That suggests that the Regulations are capable of applying to activities elsewhere. However, if the objective of Regulation 1(3) is as stated in the Explanatory Note, then the draftsman has gone about it in a very strange way.

116. The authors of the textbook then seem to introduce some equivocation into their views:

"4.4 The scope of the Regulations.

At first sight, Regulation 1(2) seems to be clear and unambiguous. It simply defines the scope of the Regulations as being applicable to the activities of agents in Great Britain – Great Britain is the relevant territory because of the constitutional need to provide separate legislative measures for Northern Ireland. As noted above, this provision must now be read in conjunction with the amended regulation 1(3)(a) and (b). However, certain problems arise, as follows:

... - What is the position of a commercial agent who carries out activities not only in Great Britain but in other Member States? Do the regulations only apply to the activities carried out in Great Britain and not to those carried out elsewhere in the EU?" …

117. Having reflected on the fact that the Directive gave little assistance, the authors then seem to answer their own question fairly positively when they say:

"Where an agent carries out its activities both in Great Britain and in other Member States, the view of the DTI is that the Regulations govern the agent's activities in Great Britain but do not cover the same agent's activities anywhere else in the EU. This view has been overtaken by the above-mentioned amendments to the Regulations and, accordingly, if

English law is the applicable law of the agreement, then the Regulations will apply to all the agent's activities within the EU."

118. For my part I am unable to be as confident as the authors of that textbook that the Regulations have the effect referred to. As I have observed, the Regulations seem to have adopted a strange drafting technique to establish that position. Without the assistance of the Explanatory Note it would in my view be hard if not impossible to give the Regulations the effect contended for by Mr Moser (and the authors of the textbook).

119. However, this seems to me to be irrelevant for the purposes of the present application. Whatever the effect of Regulations 1(2) and 1(3) may be, they seem only to have that effect if the agreement governing the agency is expressly subject to either English law or the law of another Member State. That is not true of the agreement in the present case – the agreement is subject to Texas law. So those two Regulations are not invoked, and the only valid claim that exists is one in respect of GB-based activities, which is in fact what is pleaded (see above).

120. Accordingly, so far as relevant, I do not consider that this point requires either a limitation of any permission to serve out or a setting aside of the present permission.

121. Mr Moser relied upon *Wood Floor Solutions v Silva Trade* [2010] 1 WLR 1900. This case involved jurisdictional questions on the Judgments Regulation. Although the claim made in the case was one under legislation flowing from a commercial agency contract, the sort of questions with which this section of this judgment is concerned did not arise in that case. The case was about how to found jurisdiction. In the course of its judgement the CJEU made observations as to where a claim should be brought where the activities of an agent were carried out in various jurisdictions. Mr Moser sought to rely on this case by way of some sort of analogy. I do not think that it helps him, or me. It certainly seems to contemplate a claim brought in respect of a commercial agency in one jurisdiction covering activities in others, but whether or not that is possible in any given case must depend on local legislation, and it is not apparent from the judgment what that was. Accordingly, I place no reliance on this case.

The commission claim

122. I shall deal shortly with the merits on this claim when I return to it below under a consideration of appropriate forums.

The appropriate forum

123. Under CPR 6.37(3) the claimant has to satisfy the court that England is the proper place in which to bring the claim. Fern submits that it has done so. Its main activity is here; it is an English corporation; it should be paid here; the claim is under a "public law mandatory order"; the claimant's witnesses are here; and its documents are here.

124. The main point taken against this by Intergraph is the jurisdiction clause. Mr Dhillon says it is a strong clause which in its terms would cover this action, and it was a matter of agreement between the parties. It should only be over-ridden, and Fern released (in effect) from its bargain if there is an overwhelming or very strong reason for doing so. No such reasons exist. Accordingly the claim should not be brought in this jurisdiction.

125. The terms of the jurisdiction clause are set out above. It provides for the Texas state and Federal courts to have jurisdiction in relation to disputes "relating to" the contract. A claim under the Regulations is, in my view, a dispute "relating to" the contract, and therefore prima facie within the jurisdiction clause. However, that does not preclude the English court from having jurisdiction. It is a contractual provision. The present question is whether the English court is the proper place in which to bring the claim. It is plainly a proper place as a court, but the suggestion behind Intergraph's submissions is that there is a better place, namely Texas. There is, however, a fundamental problem in Intergraph's making the submission. It is apparent enough from its evidence that it does not accept that the Texas or US District Court would actually have power or jurisdiction to hear and determine a dispute under the Regulations. Its deponent, Mr Corney, does not quite go so far as to say in terms that it would be his client's case that a claim on the Regulations could not be brought in Texas, but it is clear enough from his evidence that that is likely to be its stance. At paragraph 34.4 of his witness statement he refers to the fact that "in the appropriate circumstances" Texan courts can apply foreign law, and says "it would be open to the Claimant to argue that the Regulations must be applied in the Texan court." That suggests that that argument would be opposed by Intergraph. The relief sought by his client in the Texas proceedings includes a claim for a declaration that the agreement and Texan law do not provide the Claimant any basis for monetary relief based on the termination or expiry of the agreement. While that in theory does not necessarily exclude the possibility that Texas law would recognise English law as providing for monetary relief, it is plain enough that that is the result which Intergraph says should be achieved. Otherwise it is hard to see what the point of that declaration would be. Most tellingly, in all the debate about the appropriate forum, Intergraph has never said that it accepts that a Texas court would give effect to the Regulations (assuming there to be a valid claim), or that Intergraph would submit to that court entertaining the claim.

126. The position is therefore that Intergraph is maintaining that the English court is not the appropriate place to bring these proceedings whilst at the same time maintaining that they cannot be brought in the only other possible alternative court into which it seeks to drive Fern. That is an untenable position. In the light of those facts Fern has established that the English court is the proper place in which to bring the claim.

127. That conclusion does involve allowing Fern to depart from its contractual agreement as to jurisdiction. However, that is justified in the circumstances. It is also justified in the light of the nature of the claim under the Regulations and the impermissibility of derogating from the entitlement of the parties to benefit from the Regulations. In *Accentuate* there was an arbitration agreement

in the relevant agency agreement whose implementation would not extend to a claim under the Regulations. Tugendhat J summarised the position in paragraph 88 of his judgment which I have set out above, but which I shall repeat here:

> "88. The decision in *Ingmar GB Ltd v Eaton Leonard Technologies* requires this court to give effect to the mandatory provisions of EU law, notwithstanding any expression to the contrary on the part of the contracting parties. In my judgement this must apply as much to an arbitration clause providing for both a place and a law other than a law that would give effect to the Directive, as it does to the simple choice of law clause that was under consideration in the *Ingmar* case."

128. That case, and *Ingmar* itself, demonstrates the primacy of a claim under the Regulations over contractual provisions where to give effect to those provisions would not allow the Regulations to have their full effect. That primacy, in my view, justifies this court in determining that it is the proper place to determine the dispute and in declining to give effect to the jurisdiction clause in this context, where it is not clear that the alternative court would give effect to the Regulations at all, and where it is clear that the defendant is going to say that it should not.

129. In the circumstances I decide this point in favour of the claimant. For the sake of completeness I should add that the defendant has its own application for a stay of the present proceedings in favour of the Texas courts, and for the same reasons that application fails.

The commission claim revisited

130. The claims in this case include a claim to unpaid commission. Fern does not, and says it cannot, particularise that claim, but it is not satisfied that it has been paid all the commission that is due. Whether or not that is the case would depend on a detailed consideration of the facts and, in particular, on a disclosure process. Intergraph criticises this claim as being a purely speculative one, and says that even if permission to serve out is given in relation to a claim under the Regulations, it should not be given in respect of this claim.

131. On this point I consider that Intergraph is correct so far as the jurisdictional point is concerned. This is a straight claim under the agency agreement, and is different from the claim under the Regulations. It falls fairly and squarely within the exclusive jurisdiction clause, and Fern cannot, in this instance, maintain that the English court is the proper place to bring the claim. The proper place to bring this claim is the Texas courts. This conclusion makes it unnecessary for me to consider whether Fern can pass through any gateway (the only possible candidate is the "place of performance" gateway) or whether it passes the merits test.

Conclusion

132. I therefore conclude that:

(a) Fern has not established that a claim under the Regulations can be brought within any of the currently proposed gateways;

(b) had it been able to invoke one of those gateways, Fern has a case for invoking the Regulations which raises a serious question to be tried and which passes that aspect of the requirements for service out of the jurisdiction;

(c) the courts of England and Wales would be a proper place to bring such a claim;

(d) permission to serve a claim for unpaid commission out of the jurisdiction should not have been granted.

133. In normal circumstances that would lead to an order setting aside the order granting permission to serve out of jurisdiction. That is the order that should be made at this stage in relation to the claim for unpaid commission. However, in relation to the claim under the Regulations the position is different. As I have indicated above, Fern wishes to advance an alternative case based on tort should it fail on the three gateways that it has hitherto relied on. That point was not argued at the hearing before me because Mr Dhillon, while accepting that a claim under the Regulations could be treated as a claim in tort, nonetheless had points that he wished to take against success on that Gateway and which he could not advance because he had not brought relevant authorities to court. The point could therefore not be argued, and it would be unfair on Intergraph to fail to give it a proper opportunity to argue the point if it is to be advanced by Fern. Rather than requiring Fern to start all over again, which I am sure it would wish to do if necessary, the more convenient course may be to give an opportunity to amend and, having done so, to have the tort point argued in full. It may also be that there should be some submissions on gateway 20 (see above). I shall therefore give the parties an opportunity to make submissions on the appropriateness of that course and, it is adopted, restore the matter for further argument. If I am satisfied that the proper course is not to allow Fern to argue for further gateways then the correct order will be one which does indeed set aside the order permitting service out of the jurisdiction on both claims.

Appendix 1

The Commercial Agents (Council Directive) Regulations 1992 (1993 No 3053)

In what follows I have emphasised certain words which are particularly important to the issues that I deal with in this judgment.

Regulation 1 is central to this case and contains the main provisions governing the applicability of the Regulatoins:

> **"1. Citation, commencement and applicable law**
>
> (1) These Regulations may be cited as the Commercial Agents (Council Directive) Regulations 1993 and shall come into force on 1st January 1994.
>
> (2) These Regulations govern the relations between commercial agents and their principals and, subject to paragraph (3), <u>apply in relation to the activities of commercial agents in Great Britain</u>.
>
> (3) A court or tribunal shall:
>
> (a) apply the law of the other member State concerned in place of regulations 3 to 22 where the parties have agreed that the agency contract is to be governed by the law of that member State;
> (b) (whether or not it would otherwise be required to do so) apply these regulations where the law of another member State corresponding to these regulations enables the parties to agree that the agency contract is to be governed by the law of a different member State and the parties have agreed that it is to be governed by the law of England and Wales or Scotland."

The Regulations apply to the relationship in this action via regulation 2, which deals with interpretation:

> **"2. Interpretation, application and extent**
>
> 2. (1) In these Regulations—
>
> "commercial agent" means a self-employed intermediary who has continuing authority to negotiate <u>the sale or purchase of goods</u> on behalf of another person (the "principal"), or to negotiate and conclude <u>the sale or purchase of goods</u> on behalf of and in the name of that principal; but shall be understood as not including in particular:
>
> (i) a person who, in his capacity as an officer of a company or association, is empowered to enter into commitments binding on that company or association;
> (ii) a partner who is lawfully authorised to enter into commitments binding on his partners;

(iii) a person who acts as an insolvency practitioner (as that expression is defined in section 388 of the Insolvency Act 1986(1)) or the equivalent in any other jurisdiction;

“commission” means any part of the remuneration of a commercial agent which varies with the number or value of business transactions;

(3) The provisions of the Schedule to these Regulations have effect for the purpose of determining the persons whose activities as commercial agents are to be considered secondary.

(4) These Regulations shall not apply to the persons referred to in paragraph (3) above.”

Regulations 3 and 4 provide for duties of the agent and principal to each other, and regulation 5 prevents derogation:

“5. **Prohibition on derogation from regulations 3 and 4 and consequence of breach**

(1) The parties may not derogate from regulations 3 and 4 above.

(2) The law applicable to the contract shall govern the consequence of breach of the rights and obligations under regulations 3 and 4 above."

Paragraph (2) has some significance in terms of distinguishing between the rights and obligations under the Regulations on the one hand and the contract on the other.

Part IV deals with the termination of the agency contract, and the claim in this action is brought under regulation 17:

“17. **Entitlement of commercial agent to indemnity or compensation on termination of agency contract**

(1) This regulation has effect for the purpose of ensuring that the commercial agent is, after termination of the agency contract, indemnified in accordance with paragraphs (3) to (5) below or compensated for damage in accordance with paragraphs (6) and (7) below.

(2) Except where the agency [contact] otherwise provides, the commercial agent shall be entitled to be compensated rather than indemnified.

(3) Subject to paragraph (9) and to regulation 18 below, the commercial agent shall be entitled to an indemnity if and to the extent that—

(a) he has brought the principal new customers or has significantly increased the volume of business with existing customers and the principal continues to derive substantial benefits from the business with

such customers; and
(b) the payment of this indemnity is equitable having regard to all the circumstances and, in particular, the commission lost by the commercial agent on the business transacted with such customers.

(4) The amount of the indemnity shall not exceed a figure equivalent to an indemnity for one year calculated from the commercial agent's average annual remuneration over the preceding five years and if the contract goes back less than five years the indemnity shall be calculated on the average for the period in question.

(5) The grant of an indemnity as mentioned above shall not prevent the commercial agent from seeking damages.

(6) Subject to paragraph (9) and to regulation 18 below, the commercial agent shall be entitled to compensation for the damage he suffers as a result of the termination of his relations with his principal.

(7) For the purpose of these Regulations such damage shall be deemed to occur particularly when the termination takes place in either or both of the following circumstances, namely circumstances which—

(a) deprive the commercial agent of the commission which proper performance of the agency contract would have procured for him whilst providing his principal with substantial benefits linked to the activities of the commercial agent; or
(b) have not enabled the commercial agent to amortize the costs and expenses that he had incurred in the performance of the agency contract on the advice of his principal.

(8) Entitlement to the indemnity or compensation for damage as provided for under paragraphs (2) to (7) above shall also arise where the agency contract is terminated as a result of the death of the commercial agent.

(9) The commercial agent shall lose his entitlement to the indemnity or compensation for damage in the instances provided for in paragraphs (2) to (8) above if within one year following termination of his agency contract he has not notified his principal that he intends pursuing his entitlement."

The detail of the claim does not matter for the purposes of this action. It is its nature that matters. Paragraph 19 prevents derogation from regulation 17:

"**19. Prohibition on derogation from regulations 17 and 18**

The parties may not derogate from regulations 17 and 18 to the detriment of the commercial agent before the agency contract expires."

Regulation 23 refers to Transitional Provisions and might be thought to have some relevance to the question of how these Regulations relate to the contractual rights:

“23. Transitional provisions

(1) Notwithstanding any provision in an agency contract made before 1st January 1994, these Regulations shall apply to that contract after that date and, accordingly any provision which is inconsistent with these Regulations shall have effect subject to them.”

As emphasised above, the Regulations do not apply to activities that are “secondary”. The schedule to the Regulations applies to provide guidance as to what is secondary and what is primary. I have to set out that schedule in its entirety:

“THE SCHEDULE

1. The activities of a person as a commercial agent are to be considered secondary where it may reasonably be taken that the primary purpose of the arrangement with his principal is other than as set out in paragraph 2 below.

2. An arrangement falls within this paragraph if—

(a) the business of the principal is the sale, or as the case may be purchase, of goods of a particular kind; and

(b) the goods concerned are such that—

(i) transactions are normally individually negotiated and concluded on a commercial basis, and

(ii) procuring a transaction on one occasion is likely to lead to further transactions in those goods with that customer on future occasions, or to transactions in those goods with other customers in the same geographical area or among the same group of customers, and

that accordingly it is in the commercial interests of the principal in developing the market in those goods to appoint a representative to such customers with a view to the representative devoting effort, skill and expenditure from his own resources to that end.

3. The following are indications that an arrangement falls within paragraph 2 above, and the absence of any of them is an indication to the contrary—

(a) the principal is the manufacturer, importer or distributor of the goods;

(b) the goods are specifically identified with the principal in the market in question rather than, or to a greater extent than, with any other person;

(c) the agent devotes substantially the whole of his time to representative activities (whether for one principal or for a number of principals whose interests are not conflicting);

(d) the goods are not normally available in the market in question other than by means of the agent;

(e) the arrangement is described as one of commercial agency.

4. The following are indications that an arrangement does not fall within paragraph 2 above—

(a) promotional material is supplied direct to potential customers;

(b) persons are granted agencies without reference to existing agents in a particular area or in relation to a particular group;

(c) customers normally select the goods for themselves and merely place their orders through the agent.

5. The activities of the following categories of persons are presumed, unless the contrary is established, not to fall within paragraph 2 above -
Mail order catalogue agents for consumer goods.
Consumer credit agents."