

Neutral Citation Number: [2006] EWCA Civ 380

Case No: A3 2005/2316

**IN THE SUPREME COURT OF JUDICATURE**  
**COURT OF APPEAL (CIVIL DIVISION)**  
**ON APPEAL FROM THE HIGH COURT OF JUSTICE**  
**CHANCERY DIVISION**  
**MR JUSTICE WARREN**  
**[2005] EWHC 2087 (Ch)**

Royal Courts of Justice  
Strand, London, WC2A 2LL

Date: 11 April 2006

**Before:**

**LORD JUSTICE WALLER**  
**LORD JUSTICE LONGMORE**  
and  
**LORD JUSTICE LLOYD**

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**Between:**

(1) SPORTSWEAR SpA  
(2) FOUR MARKETING LIMITED  
- and -  
STONESTYLE LIMITED

**Respondents**  
**Claimants**

**Appellant**  
**Defendant**

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**Fergus Randolph** (instructed by **McDermott Will & Emery UK LLP**) for the **Appellant**  
**Guy Tritton** (instructed by **Wedlake Bell**) for the **Respondents**

Hearing dates: 29 and 30 March 2006  
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**Judgment**

## **Lord Justice Lloyd:**

### **Introduction**

1. This appeal is brought by the Defendant to one of two related claims in which the Respondents seek to enforce trade mark rights in respect of garments manufactured by or for the First Respondent, and distributed in the UK by the Second Respondent, under the brand Stone Island. The order appealed from was made by Warren J on 3 October 2005.
2. The other of the two claims is against a Mr Ghattaura, trading as GS3. A similar order was made against him, and he also appealed, but he has withdrawn his appeal.
3. The order struck out from the Defence in each claim a number of paragraphs in which the Defendant sought to allege that the Respondents were parties to agreements which infringe Article 81 of the EC Treaty, and that for this reason they were not entitled to enforce their trade mark rights. The claims are in the meantime proceeding to trial on the other issues raised, and they are at present due for trial early in May. Thus the resolution of this appeal is urgent; if the paragraphs in question are to be reinstated the issues at trial will be considerably expanded.
4. The First Respondent is the manufacturer of a range of garments in relation to which it uses the word mark Stone Island and a related graphic mark. Its products are sold in England and in other markets, both within and, we were told, also outside the European Economic Area. The Second Respondent is its distributor in the UK, Eire and Iceland. Two agreements between the two Respondents are before the court. Sales of the relevant products in other Member States of the EEA are made through other undertakings; we were told that there is a distributor in Spain and agents in other countries, but we do not have any information as to the terms of the agreements with those entities.
5. The agreements between the two Respondents, to which I will refer in more detail below, provide evidence that the First Respondent seeks to achieve a clear geographical separation of the marketing of its products. The Second Respondent has exclusivity within its territory and agrees not to sell into other territories.
6. Stone Island products are said to be popular and successful in England, and to command substantial prices. Mr Ghattaura sold such products which he had obtained from the Appellant. The Appellant obtains such products, but from a source other than the Second Respondent. The identity of the Appellant's supplier is not revealed, but it is known to be based in Italy.
7. The Stone Island trade mark features in a number of ways on garments as sold. In particular the words are on the label of the garment. Also on the label, and on the swing tag (which gives the price and other details such as size), there is a code, known as the Garment Code. This enables the First Respondent to identify for which of its retailers the particular garment was manufactured. The code is in two parts: the first identifies the retailer and the second gives information as to the order and its quantity. The Respondents assert that the Garment Codes assist in determining whether goods bearing the Stone Island mark are genuine or not, and enable the First Respondent to track, administer and identify orders for retail customers. The Appellant does not

admit these purposes, and asserts that the Garment Codes have another use, namely to enable the Respondents to police and enforce the absolute territorial exclusivity conferred on each party by the distribution contracts between them.

8. When the Respondents found that Mr Ghattaura was selling Stone Island garments, they also found that the Garment Codes had been cut out of the garments, by the cutting of holes in the labels, and also from the swing tags. We were told, and it is not difficult to believe, that this operation was carried out before the garments reached the Appellant. The Appellant's Italian supplier would have removed the Garment Codes from the products which it sold outside Italy, because, if the Garment Codes were not obliterated, an item found on sale in the UK might be able to be traced back to the particular retailer. The First Respondent might then be able to take steps, whether by legal proceedings or by limiting supplies, against that retailer in an attempt to prevent Stone Island garments getting into the UK market otherwise than through its official distributor for that market, namely the Second Respondent.
9. It is inconsistent with the basic tenets of the single market under the EC Treaty for an undertaking to partition the market within the EU, or now the EEA, on a geographical basis. This infringes the principle of free movement of goods, enshrined in Article 28 of the Treaty. The interaction between that principle, on the one hand, and respect for intellectual property rights, such as trade marks, on the other, has given rise to tensions over the years, which have been explored in a number of decisions of both national courts and the European Court of Justice. The present case is another such.
10. Ordinarily, under English trade mark law, it would be an infringement of the rights of the proprietor of a registered trade mark for relevant goods to be imported into or sold in this jurisdiction by reference to the mark without the consent of the owner: see Trade Marks Act 1994 section 10(4)(b) and (c). However, as regards operations within the EEA, section 12(1) of the Act (which gives effect to Article 7(1) of the Trade Marks Directive 89/104/EEC) provides that a registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in the EEA under that trade mark by the proprietor or with his consent. To this there is an exception, in section 12(2), which implements Article 7(2) of the Directive:

“Subsection (1) does not apply where there exist legitimate reasons for the proprietor to oppose further dealings in the goods (in particular, where the condition of the goods has been changed or impaired after they have been put on the market).”
11. Given that the garments sold by the Appellant came from Italy, it is common ground that section 12(1) applies. The Respondents contend that the interference with the labels (and swing tags) involved in the removal of the Garment Codes affords them a legitimate reason for opposing further dealings in the goods, and that therefore, notwithstanding section 12(1), they can assert their trade mark rights and sue the Appellant and Mr Ghattaura for infringement. They seek an injunction and financial remedies (an account or damages), as well as delivery up of any infringing items and disclosure of the identity of the Appellant's suppliers.
12. The Claim Form was issued on 22 November 2004, followed by Particulars of Claim early in December. The Appellant served its Defence on 25 January 2005, and the

Respondents followed with a Reply in February. After some correspondence as to the adequacy of the Appellant's pleading, the Respondents issued an application to strike out three paragraphs of the Defence on 16 March 2005. This came before the judge on 27 and 28 June. He gave judgment on 3 October, granting the application. Points of pleading and points of substance were argued. On one point the judge refused an application by the Appellant for permission to amend. No appeal is brought against that refusal. On another he indicated that permission to amend might be given, but did not decide whether or not to give permission for the amendment proposed.

### **The pleaded allegations**

13. Since the issue in the appeal is whether the judge was right to strike out paragraphs 16 to 18 of the Defence, the appropriate place to start on an examination of the relevant details is with the statements of case.
14. The Particulars of Claim allege, among other things, the trade mark registrations, exclusive licences granted by the First Respondent to the Second Respondent in 1999 and in 2004 to sell clothing of the First Respondent under the Stone Island brand in the UK, substantial sales of such clothing under the brand and, resulting from such sales, "substantial goodwill and reputation as a high quality brand in relation to premium quality clothing", and the association of the brand exclusively with the First Respondent's clothing. The use of the Garment Codes is alleged, and the purpose of such use, as described at paragraph 7 above. Then sales by Mr Ghattaura of clothing bearing the Stone Island mark but defaced by the removal of the Garment Codes, the identification by Mr Ghattaura of the Appellant as his supplier, and the Appellant's admission of having supplied the items to him, are alleged. It is then said that the sale of the garments with the Garment Codes defaced or removed is detrimental to the distinctive character and repute of the marks, for reasons stated. It is said that the defacement or mutilation of the goods is a legitimate reason for the Respondents to oppose further dealings in the goods under section 12(2), for reasons given. On that basis, infringement of the marks is alleged, and relief sought such as I have already mentioned.
15. By the Defence, as regards the points now material, the purposes alleged for the use of the Garment Codes are not admitted and a different purpose is alleged in paragraph 9, as mentioned at paragraph 7 above. It is not admitted that the alteration of the appearance of the goods damages the reputation of the mark. Issue is taken on a number of grounds with the particulars given by the Respondents of the legitimate reasons relied on under section 12(2). Then follow the three paragraphs at issue in this appeal. They are as follows:

"16. Further or alternatively, the Claimants' assertions regarding Garment Codes do not constitute legitimate reasons under section 12(2) of the Trade Marks Act 1994 because the Garment Codes give effect to certain provisions of the [distribution agreements] which provisions have as their object the prevention, restriction or distortion of competition within the common market, contrary to Article 81 (1) of the EC Treaty.

17. In the premises, the Garment Codes form part of an illegal arrangement between the First Claimant and the Second Claimant to partition national markets and to fix prices within the European Union.
18. Further, or in the alternative, the Claimants' action in seeking to prevent the importation and sale of goods bearing the Registered Marks in the UK with the Garment Codes removed is action brought as the object, means or consequence of an agreement prohibited by Article 81 (1) of the EC Treaty and thus is itself contrary to Article 81 (1)."
16. Particulars are given under paragraph 16 under the headings "market partitioning" and "price fixing" in relation to the 1999 and 2004 distribution contracts. For present purposes it is sufficient to refer to what is said about the 2004 contract. It is said to confer absolute territorial protection on the Respondents' respective areas of distribution, by means of articles 2, 4 and 13, and to contain provisions which allow the Respondents directly or indirectly to fix purchase or selling prices or trading conditions between them, by means of articles 4 and 6.
17. It is unnecessary to consider the terms of the Reply.

### **The distribution agreements**

18. Since much turns on the provisions of the distribution agreements, I will next set out the most material provisions of the 2004 agreement, starting with article 2. SPW is the First Respondent, and Distributor the Second Respondent. The text suggests derivation from an Italian language source. (The agreement is governed by Italian law.)

#### **"ART.2: AREA OF ACTIVITY**

The Distributor's area of activity shall be the geographical territory of Great Britain, Northern Ireland, Eire and Iceland.

The Distributor engages himself to merchandise the goods supplied by SPW only in the above-mentioned area.

It's main and common interest for the parties the observance of the geographical area and the observance of the exclusive sales agreement in the above-mentioned area. Considering this common interest, the parties agree as follows:

- a) SPW engages himself to mark all the goods supplied or a part of these ones with codes for the identification of the geographical area where the goods have been destined, so that it will be possible to verify eventual infringements to the sole rights agreed between SPW and his distributors.
- b) SPW engages himself to introduce the same arrangements as these ones in all the contract that he shall agree or he shall renewal with the other geographical area distributors, so that SPW shall enforce the same sole rights for all the distributors.

c) The Distributor engages himself to forbid his customers to sell the goods supplied from SPW in geographical areas different from his one. The Distributor engages himself, under his responsibility to watch over his customers so that his customers will respect this prohibition.

If SPW can prove that some goods supplied by SPW have been sold in geographical areas different from the Distributor area, the Distributor will engage himself to compensate the damage suffered by SPW. The Distributor shall have to compensate also the SPW repurchase and import costs paid for goods sold in geographical areas different from the Distributor area. The payment of the damage will not be less than a double amount of the SPW's expenses for buying back the goods including all duty and transport charges."

19. Article 4 sets out obligations of the Distributor, relevantly as follows:

"The Distributor must act in the interests of Sportswear Company SPA with all of his professional diligence, and in particular:

(b) he shall semi-annually supply Sportswear Company SPA with a written report of all information regarding the promotion of business, his customer portfolio, the market situation in his sector and the evolution of prices;

(e) he shall not deal with customers in different areas and/or with customers who use the products in other areas."

20. Correspondingly, article 6 deals with supplies to the Distributor, and includes the following paragraph (e):

"The Distributor is free to set the sale price of the goods supplied by SPW. Besides, it's common interest for the parties that the sale price set by the Distributor are equal to the price set in the European Community Market. This common demand will be more interesting for the parties when Euro will come into force in Great Britain. When the Euro will come into force, all the values will be fixed in that currency and it will not be necessary to modify this contract. To satisfy the above-mentioned common interest, SPW shall communicate to the Distributor the prices usually set in the rest of the European community so that the Distributor shall be able to set similar prices."

21. The other important provision is article 13, from which some details have been redacted:

"ART. 13: BRAND PROTECTION

13.1 Brand Protection management.

SPW Company will contribute a maximum xxx per annum to allow Four Marketing to investigate and deal with counterfeit and parallel issues. Four Marketing will undertake this by employing a brand

protection manager and or through established brand protection companies.

This amount will include a test purchase budget with a maximum xxx per year (list to be provided to SPW).

Four Marketing will provide SPW Company with quarterly statements, which will itemise all costs associated with this activity. Payment will be at 30 days at month end.

### 13.2 Legal Costs.

13.2 Any brand protection activity, which will involve legal costs, must be sanctioned by SPW Company.

All legal costs will be invoiced xxx.

Any settlement whether derived by legal action or not will be split equally between SPW Company and Four Marketing.”

22. From these terms, it is possible to see clearly the basis for the Appellant’s contention that the First Respondent seeks to partition the European market on a geographical basis. The opening words of article 2 expressly identify the observance of the geographical exclusivity as a main and common interest for the parties. The Second Respondent has exclusive distribution rights in the specified territory, and agrees not to deal with customers in other areas, or with customers who trade in other areas, and also to forbid its customers from selling outside the relevant area and to monitor compliance with this obligation, and to compensate the First Respondent if goods supplied by it are sold in other territories. The First Respondent commits itself to impose similar exclusivity terms in other distribution contracts, and to mark the goods supplied with codes so that infringements of the exclusivity arrangements can be verified. Provision is made by article 13 for steps to be taken by the Second Respondent by way of brand protection, to investigate and deal with counterfeit and parallel issues, for which the First Respondent provides some funding.
23. The object of price-fixing is not so clearly apparent from the terms of the agreement, but there are provisions which could be used to that end.
24. Mr Tritton, appearing for the Respondents, told us on instructions that none of the First Respondent’s other agreements in relation to other territories in the EEA contains any corresponding provisions to articles 2 and 13. That would be a matter of evidence at the trial but, if it be so, the First Respondent has not complied with its obligation in article 2(b), which was also in the 1999 distribution agreement between the Respondents in the same terms. Moreover, even if the only segregation of the EEA market is as between the Second Respondent’s territories, on the one hand, and the rest of the EEA, on the other, that would, in principle, offend against Article 28 of the EC Treaty.

### **The Treaty provisions**

25. The relevant provisions of the EC Treaty dealing with the free movement of goods are Articles 28 to 30, as follows:

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

29. Quantitative restrictions on exports and all measures having equivalent effect shall be prohibited between Member States.

30. The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.”

26. It is common ground that this does not apply directly to provisions in agreements between undertakings, but rather to legislative and regulatory provisions of national laws. The proper ambit of section 12(2) must be construed with these provisions in mind.

27. The provisions of Article 81, however, are directly applicable, in their nature, to agreements between undertakings. They are as follows (omitting paragraph 3 as irrelevant):

“1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- (b) limit or control production, markets, technical development, or investment;
- (c) share markets or sources of supply;
- (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.”



28. The basis for the Appellant's contention that the distribution agreement between the Respondents is in breach of this Article is easy to see. There is no allegation in the Defence as it stands that the agreement would have an appreciable effect on trade between Member States, which is a necessary allegation, but it is now agreed that this is a point which could be cured by amendment. The Appellant had refused to accept this before the hearing below, but did so during the hearing, and has since put forward a draft amendment intended to cure this defect. The judge did not decide whether this was sufficient, since it did not arise in the light of his decision on another aspect of the case. If paragraph 16 is, in principle, allowed to stand in the Defence, it will have to be amended, and the issue will therefore have to be resolved as to whether the proposed amendment is adequate. Subject to that point, it is accepted that the striking out application, and the appeal, must proceed on the basis that the agreements are in breach of Article 81.

### **The requirement of a sufficient nexus**

29. The application to strike out was put to the judge on a number of points, of which the failure to allege appreciable effect on the market was one. Another, substantively more important, is whether there is sufficient nexus between the breach of Article 81 and the Respondents' claim. Paragraph 18 of the Defence is said to raise a different point, about litigation as such, to which I will come later.
30. It is not in dispute that, for a breach of Article 81 to be relevant to the Respondents' claim, there must be a sufficient nexus between the two. A breach of the Article may give rise to various consequences, including a claim for damages, but the fact that two undertakings are parties to such an agreement does not of itself debar either of them from enforcing intellectual property rights.
31. As a matter of English law, this point was considered by the Court of Appeal in *British Leyland v Armstrong* [1984] 3 CMLR 102 where a defendant sought to defend an action for copyright infringement brought by a copyright owner on the grounds that the plaintiff was party to an agreement with third parties (its licensees) which contravened Article 81. The court dismissed this defence. Oliver LJ said this:

“[89] Now the only agreements upon which the defendants rely as infringing this Article are certain licence agreements, to which I will refer in a little more detail below, under which certain manufacturers of spare parts engage to pay royalties to the plaintiffs on spare parts manufactured and sold by them, and there is, as it seems to me, a very short answer to the defence based on this Article.

[90] The defendants have not entered into such an agreement, so that what they are saying, in effect, is this: ‘because you have entered into agreements with X, Y and Z, which are void under Article [81], you are debarred from exercising any of the rights which the law confers on you in respect of infringements by us’. The answer to this is, I think, conveniently set out in the judgment of Sir Robert Megarry, V.C. in *Imperial Chemical Industries v. Berk Pharmaceuticals*, [1981] FSR 1, [1981] 2 CMLR 91, where he struck out a paragraph in the defence which pleaded that by reason of breaches of Article 86 (in that case) [now Article 82] the plaintiffs were debarred from relief against

passing-off on the ground of the lack of nexus between the abuse pleaded and right claimed by the defendants.

[91] That seems to be equally applicable here, where the defendants claim the right to do what they would otherwise be prohibited from doing because of some contractual relationship which has been entered into between the plaintiffs and third parties.

[92] The learned Vice-Chancellor observed [see [1981] FSR at p 6]:

“Article [82] prohibits any abuse which falls within the ambit of the Article. Many other acts by the plaintiffs are also prohibited, whether by statute, common law or equity, or under the Treaty. I do not think that it could be said that a person in breach of some statutory duty or other prohibition thereupon becomes an outlaw, unable to enforce any of his rights against anyone. If the plaintiffs are imposing unfair selling prices in that they charge too much for their product, I cannot see why this breach of the prohibitions of Article [82] means that the defendants are thereby set free from any liability to the plaintiffs if they, the defendants, commit the tort of passing off (or, indeed, any other tort) against them”.

[93] That seems to me equally applicable here and to provide a complete answer to any defence based on Article 81.”

32. Mr Randolph, for the Appellant (who did not appear below), relied on *Frits Loendersloot t/a Loendersloot Internationale Expeditie v George Ballantine & Sons Ltd* Case C-349/95 [1997] ECR 6227. That case concerned parallel trading in whisky. Ballantine and others sold whisky in bottles with labels which carried the producer's trade mark and also carried identification numbers. Loendersloot removed the labels and relabelled them, using the same trade marks but not using the identification numbers and, in some cases, altering the text of the labels, for example removing the word “pure” and omitting the name of the approved importer. Ballantine and others brought trade mark infringement proceedings in the Netherlands. On a reference to the Court of Justice of the European Communities, the court held, first, that it was for the national court to decide whether a dispute was to be resolved on the basis of Article 30 of the EC Treaty (as it now is) or of Article 7 of the Trade Marks Directive, but that both provisions were intended to reconcile the fundamental interest in protecting trade mark rights with the fundamental interest in the free movement of goods, and they were therefore both to be interpreted in the same way. It also held that the protection of the essential function of a trade mark was capable of justifying a derogation from the fundamental principle of the free movement of goods, which could extend to objecting to repackaging the goods. However, Article 30 did not permit a trade mark owner to prohibit the repackaging of goods where that use of the trade mark would contribute to the artificial partitioning of markets between Member States because of a need to repackage in order to market the product in another Member State. At paragraphs 28 and 29 the court said this:

“28. It should be noted, however, that according to the case-law of the Court (see, in particular, *Hoffmann-La Roche*, paragraph 10, Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823, paragraphs 21 and 22, and *Bristol-Myers Squibb*, paragraphs 49 and 50) Article 36 [now 30] does not permit the owner of the trade mark to oppose the reaffixing of the mark where such use of his trade mark rights contributes to the artificial partitioning of the markets between Member States and where the reaffixing takes place in such a way that the legitimate interests of the trade mark owner are observed. Protection of those legitimate interests means in particular that the original condition of the product inside the packaging must not be affected, and that the reaffixing is not done in such a way that it may damage the reputation of the trade mark and its owner.

29. It follows that under Article 36 [now 30] of the Treaty the owner of trade mark rights may rely on those rights to prevent a third party from removing and then reaffixing or replacing labels bearing the trade mark, unless:

- a) it is established that the use of the trade mark rights by the owner to oppose the marketing of the relabelled products under that trade mark would contribute to the artificial partitioning of the markets between Member States;
- b) it is shown that the repackaging cannot affect the original condition of the product, and
- c) the presentation of the relabelled product is not such as to be liable to damage the reputation of the trade mark and its owner.”

33. Of course, what has been done in the present case is not repackaging or relabelling, but rather interference with the labels and the swing tags. The change in the label on the whisky bottles had no damaging effect on the appearance of the product and therefore the trade mark was not damaged in that way, as the Respondents contend the mark Stone Island is damaged by what has been done in the present case. However, the principles set out in that case have a clear relevance by analogy to the facts of the present case. In particular, at paragraph 37 the court said this:

“[Loendersloot] considers that the relabelling is necessary for two reasons. First, it is essential in order to make it possible to remove the identification numbers placed on the bottles by Ballantine and others, that being necessary to preserve the anonymity of the dealers engaged in parallel trade. Without that anonymity Loendersloot would be unable to obtain supplies from traders authorized by Ballantine and others, who fear the imposition of sanctions on them by the producers if they know the identity of the dealers engaged in parallel sales. Second, relabelling is necessary in order to make it possible to remove the word ‘pure’ or alter the references to the importer, so as to permit marketing in the country of destination.”

34. The court's conclusion on this point is set out in paragraphs 39 to 43, as follows:

“39. With respect to the removal and reaffixing or replacing of labels in order to remove the identification numbers, Ballantine and others observe that that removal is not necessary to enable the products in question to be marketed on the markets of the various Member States in accordance with the rules in force there.

40. It should be observed that, while that statement is correct, removal of the identification numbers might nevertheless prove necessary, as Loendersloot has observed, to prevent artificial partitioning of the markets between Member States caused by difficulties for persons involved in parallel trade in obtaining supplies from distributors of Ballantine and others for fear of sanctions being imposed by the producers in the event of sales to such persons. Even if, as Ballantine and others state, such conduct on the part of the producers would be in breach of the Treaty rules on competition, it cannot be excluded that identification numbers have been placed on products by producers to enable them to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trade.

41. It must also be acknowledged, however, that for the producers application of identification numbers may be necessary to comply with a legal obligation, in particular under Council Directive 89/396/EEC of 14 June 1989 on indications or marks identifying the lot to which a foodstuff belongs (OJ 1989 L 186, p. 21), or to realise other important objectives which are legitimate from the point of view of Community law, such as the recall of faulty products and measures to combat counterfeiting.

42. In those circumstances, where identification numbers have been applied for purposes such as those mentioned in the preceding paragraph, the fact that an owner of trade mark rights makes use of those rights to prevent a third party from removing and then reaffixing or replacing labels bearing his trade mark in order to eliminate those numbers does not contribute to artificial partitioning of the markets between Member States. In such situations there is no reason to limit the rights which the trade mark owner may rely on under Article 36 [now 30] of the Treaty.

43. Where it is established that the identification numbers have been applied for purposes which are legitimate from the point of view of Community law, but are also used by the trade mark owner to enable him to detect weaknesses in his sales organization and thus combat parallel trade in his products, it is under the Treaty provisions on competition that those engaged in parallel trade should seek protection against action of the latter type.”

35. Mr Randolph submitted that this last passage shows reliance on Article 81 (which is what must be meant by, or included in, the reference to Treaty provisions on

competition) to be a legitimate answer to a claim based on trade mark rights, if it is asserted in defence that the trade mark rights are being used in order to prevent the removal of codes which, even if they have a legitimate purpose under Community law, are also being used to combat parallel trade in the products. All the more so, he contended, is it a legitimate defence if the sole purpose, or the sole effective purpose, of the codes were (as he would seek to establish at trial) to combat parallel trading.

36. Mr Tritton submitted that this is not the correct reading of the judgment, and that, at least in a case in which the use of the codes is attributable to both legitimate purposes and also purposes in breach of Article 28 or 81, there is nothing in this judgment which shows that the owner of the trade mark cannot enforce his rights as such, though he may be subject to sanctions from the opposing party or from the regulatory authorities (in practice, the Commission) for breach of Article 81. In essence, he submitted that Article 81 provides the Appellant with a sword, but not a shield. He also submitted that *Loendersloot* was concerned with Articles 28 and 30, not with Article 81, and that paragraph 29 of *Loendersloot*, quoted above, sets out requirements which, if the Respondents are right in other allegations in the Particulars of Claim, the Appellant will not be able to satisfy, particularly the requirement that “the presentation of the relabelled product is not such as to be liable to damage the reputation of the trade mark and its owner”. He said that this is already in issue in the proceedings and is unaffected by the point arising on the appeal. He said that, if the Appellant can prove that this requirement is satisfied, it will succeed in defeating the Respondents’ claim under section 12(2), regardless of Article 81, and if it cannot it will not defeat the claim, again regardless of Article 81. Although one of the other criteria set out in the judgment is whether “it is established that the use of the trade mark rights by the owner to oppose the marketing of the relabelled products under that trade mark would contribute to the artificial partitioning of the markets between Member States”, that is a necessary but not a sufficient condition for the Appellant, who must also satisfy the condition as to absence of damage to the trade mark owner from the changed presentation of the product. Accordingly, he submitted, Article 81 adds nothing to the points already in dispute in the proceedings. If so, the substantial addition to the issues in, and the scope and cost of, the trial which would result from the inclusion of paragraphs 16 to 18 of the defence is not necessary or justified for any good reason.
37. The judge accepted submissions along these lines. He dealt with this point at paragraphs 21 to 23 of his judgment:

“21. I reject these arguments based on achieving the overall objective of Community competition law as a justification for the pleading relying on Article 81. So far as I can see, Article 81 is not relevant to these arguments. What the Defendants complain about is the enforcement by Sportswear of its trade mark in circumstances where, they say, the purpose of enforcement is to “enable them to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trades” (as it is put in *Loendersloot* at paragraph 40). That may or may not be a breach of Community competition law. But it is, in my judgment, not to the point in relation to these arguments whether, when carrying out that purpose, the Claimants are parties to an agreement

which happens to infringe Article 81. If the Defendants are right in saying that there is artificial partitioning of markets they may have good defences to the infringement actions under Community law but those will be defences which have nothing to do with Article 81. If they do not have good defences under Community law apart from Article 81, I fail to see how Article 81 gives them any (subject to the separate submissions which I address at [24] below).

22. On that basis, Article 81 is, in my judgment, irrelevant also to the applicability or otherwise of section 12(2) Trade Marks Act 1994. The argument has to be that the enforcement of the trade mark for illegitimate reasons means that the conditions of section 12(2) are not fulfilled. In a case where it would be a breach of Community law to enforce the trade mark (a possibility envisaged in *Loendersloot*) I can see that section 12(2), which needs to be construed against the background of Community law, might also need to be construed in such a way that legitimate reasons have to be held not to exist; but if Article 81 is not relevant to determining whether there is a relevant breach of Community law, then it cannot be relevant to section 12(2) either.

23. But even if, contrary to my view, Article 81 were, somehow, relevant, I agree with Counsel for the Claimants when he says that, if there is both a legitimate and an illegitimate purpose in seeking to enforce trade mark rights, then section 12(2) applies (unless the illegitimate purpose is so serious as to render enforcement altogether a breach of Community law) but there may, in giving effect to the illegitimate purpose, be a cause of action against the trade mark proprietor under Article 81.”

38. In this passage the judge identified two separate reasons for ruling that Article 81 is irrelevant: first, it adds nothing to other provisions of Community law that could assist the Appellant, and secondly it is only available to afford a cause of action, not a defence to an infringement action, if the Respondents in seeking to enforce the trade mark rights are motivated by both legitimate and illegitimate purposes.
39. I was at first attracted by the first of these propositions, that it was unnecessary for the Appellant to rely on Article 81, in addition to Article 28, in contesting the Respondents’ case for saying that they have legitimate reasons for enforcement under section 12(2), and that Article 81 could not make it possible for the Appellant to show that there were no legitimate reasons under section 12(2), if Article 28 did not enable it to do so. On reflection, however, it seems to me that it would be wrong to rule out as legally impossible the proposition that the Appellant’s ability to resist the Respondents’ reliance on section 12(2) would or could be the stronger if the Appellant were able to show that the Respondents’ conduct is not merely inconsistent with Article 28 but also involves an agreement in breach of Article 81.
40. Mr Tritton made the point that *Loendersloot* was concerned with Articles 28 and 30, not with Article 81. That is true although, as I have said, it seems to me that the reference at the end of paragraph 43 to “the Treaty provisions on competition” must include a reference to Article 81. The court stated, at paragraph 18, the identity

between the results aimed at by Articles 28 and 30 on the one hand and Article 7 of the Trade Marks Directive on the other, and said that the two should be interpreted in the same way. The decision in *Loendersloot* cannot therefore be considered as irrelevant to the present case merely because it was argued on the basis of Article 28 rather than of Article 7 of the Directive which, in its national implementation as section 12 of the 1994 Act, is the provision most relevant to the present case. Moreover, it does not seem to me that it is possible to conclude, merely from the text of the judgment in *Loendersloot*, that the reference in paragraph 43 was only to the use of the relevant competition law to provide a cause of action against the Respondents, and not a defence against their trade mark enforcement proceedings. Mr Tritton submitted that, even if the Appellant could prove at trial that the Respondents had made an agreement which was in breach of Article 81, and that they used the Garment Codes to implement that agreement, that would entitle the Appellant, on a counterclaim or in a separate claim, to have the agreement declared void and to have the continuance of the anti-competitive practice brought to an end, but it would not preclude the First Respondent from enforcing its trade mark rights, if it was otherwise entitled to do so.

41. Mr Tritton is entitled to pray in aid the formulation in paragraph 29 of *Loendersloot*, quoted at paragraph 32 above, which appears to show that it is necessary, but not sufficient, for a parallel importer to show that the use of the trade mark rights would contribute to the artificial partitioning of the market within the EEA. However, as he submitted, this statement was not made in the context of a challenge under Community competition law as such. It seems to me that it remains an open question whether, if the trade mark owner can be shown to have entered into one or more agreements in breach of Article 81, sufficiently closely related to the subject matter of the infringement proceedings, it could be sufficient for the Defendant by way of defence to prove the breach of Article 81 and the connection between the breach and the claim, without also having to satisfy condition (c) set out in paragraph 29 of *Loendersloot*.
42. Mr Randolph relied on several authorities which were not placed before the judge by the advocate then appearing for his clients. He said that if the judge had seen these, he could not have said what he did at paragraph 21 of the judgment. The first of these is *Consten and Grundig v Commission*, Cases 56 and 58/64 [1966] ECR 299. These were appeals against enforcement action by the Commission brought against the parties who had entered into distribution agreements aimed at partitioning the market on a geographical basis, with the use of trade marks to reinforce the partition. The court rejected the appeals, except on a minor point not now relevant. At page 340 of the report, in a section headed “The complaints concerning the applicability of Article 85(1) to sole distributorship contracts”, the court said:

“Finally, an agreement between producer and distributor which might tend to restore the national divisions in trade between Member States might be such as to frustrate the most fundamental [objectives<sup>1</sup>] of the Community. The Treaty, whose preamble and content aim at abolishing the barriers between states, and which in several provisions gives evidence of a stern attitude with regard to their reappearance, could not allow undertakings to reconstruct such barriers. Article

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<sup>1</sup> The report has “objections”, but this is a slip in translation from the French “objectifs”.

85(1) is designed to pursue this aim, even in the case of agreements between undertakings placed at different levels in the economic process.”

43. Later in the judgment, at page 345, the court said this:

“The applicants maintain more particularly that the criticized effect on competition is due not to the agreement but to the registration of the trade-mark in accordance with French law, which gives rise to an original inherent right of the holder of the trade-mark from which the absolute territorial protection derives under national law.

Consten’s right under the contract to the exclusive user in France of the GINT trade mark, which may be used in a similar manner in other countries, is intended to make it possible to keep under surveillance and to place an obstacle in the way of parallel imports. Thus, the agreement by which Grundig, as the holder of the trade-mark by virtue of an international registration, authorized Consten to register it in France in its own name tends to restrict competition.

Although Consten is, by virtue of the registration of the GINT trade-mark, regarded under French law as the original holder of the rights relating to that trade-mark, the fact nevertheless remains that it was by virtue of an agreement with Grundig that it was able to effect the registration.

That agreement therefore is one which may be caught by the prohibition in Article 85(1). The prohibition would be ineffective if Consten could continue to use the trade-mark to achieve the same object as that pursued by the agreement which has been held to be unlawful.

Articles 36, 222 and 234 of the Treaty relied upon by the applicants do not exclude any influence whatever of Community law on the exercise of national industrial property rights.

Article 36, which limits the scope of the rules on the liberalization of trade contained in Title I, Chapter 2, of the Treaty, cannot limit the field of application of Article 85. Article 222 confines itself to stating that the ‘Treaty shall in no way prejudice the rules in Member States governing the system of property ownership’. The injunction contained in article 3 of the operative part of the contested decision to refrain from using rights under national trade-mark law in order to set an obstacle in the way of parallel imports does not affect the grant of those rights but only limits their exercise to the extent necessary to give effect to the prohibition under Article 85(1). The power of the Commission to issue such an injunction for which provision is made in Article 3 of Regulation no 17/62 of the Council is in harmony with the nature of the Community rules on competition which have immediate effect and are directly binding on individuals.



Such a body of rules, by reason of its nature described above and its function, does not allow the improper use of rights under any national trade-mark law in order to frustrate the Community's law on cartels."

44. So, Mr Randolph submitted, the court recognised as early as 1966 that Article 81 (as it now is) has a direct relevance to the enforcement of trade mark rights aimed at partitioning the market, and it also stressed the importance of the anti-competition provisions set out in Article 81. He used that to support his proposition that an ability to rely on Article 81 would or might strengthen his client's position, as compared with being limited to reliance on Article 28.

45. In further support of these arguments he also cited the judgment of the European Court of Justice in another case about parallel trading, this time between the trade mark proprietor and the parallel importer, *Sirena v Eda* Case 40/70 [1971] ECR 69, in particular paragraphs 7, 9 and 11 from the judgment:

“7. The exercise of a trade-mark right is particularly apt to lead to a partitioning of markets, and thus to impair the free movement of goods between states which is essential to the common market. ...

9. ... A trade-mark right, as a legal entity, does not in itself possess those elements of contract or concerted practice referred to in Article 85(1). Nevertheless, the exercise of that right might fall within the ambit of the prohibitions contained in the Treaty each time it manifests itself as the subject, the means or the result of a restrictive practice. When a trade-mark right is exercised by virtue of assignments to users in one or more Member States, it is thus necessary to establish in each case whether such use leads to a situation falling under the prohibitions of Article 85.

11. Article 85, therefore, is applicable to the extent to which trade-mark rights are invoked so as to prevent imports of products which originate in different Member States, which bear the same trade-mark by virtue of the fact that the proprietors have acquired it, or the right to use it, whether by agreements between themselves or by agreements with third parties. Article 85 is not precluded from applying merely because, under national legislation trade-mark rights may originate in legal or factual circumstances other than the abovementioned agreements, such as registration of the trade-mark, or its undisturbed use.”

46. As Mr Randolph put it, this gives further support to the idea that Article 81 is directly relevant to the exercise, or the enforcement, of trade mark rights in a situation where such exercise may be a way of ensuring the partitioning of the market.

47. The third of his citations in support of this argument was a case about design rights rather than trade marks: *Keurkoop BV v Nancy Kean Gifts BV*, Case 144/81, [1982] ECR 2853. In this case, the proprietor of design rights under the law of one Member State in relation to a given product sought to enforce those rights against an undertaking which imported such products from another Member State where the design was not protected by legal rights. It was held that such enforcement was

permissible subject to a number of conditions, one of which was that there was no relevant agreement or concerted practice in breach of Article 81. The court said, at paragraphs 26 and 27:

“26. Furthermore, the proprietor of an exclusive right may not rely on his right if the prohibition on importation or marketing of which he wishes to avail himself could be connected with an agreement or practice in restraint of competition within the Community contrary to the provisions of the Treaty, in particular to those of Article 85.

27. Although a right to a design, as a legal entity, does not as such fall within the class of agreements or concerted practices envisaged by Article 85(1), the exercise of that right may be subject to the prohibitions contained in the Treaty when it is the purpose, the means or the result of an agreement, decision or concerted practice.”

48. The statement that it is sufficient if the prohibition on import or marketing (to be understood in the present case as the reliance on import and sale as an infringement of trade mark rights) “could be connected” with an agreement or practice in breach of Article 81 suggests that the nexus does not need to be as close as some other cases suggest, in particular English cases such as *British Leyland v Armstrong*. In the latter case however, on the facts, there really was no connection at all. (In *ICI v Berk*, referred to by Oliver LJ in *British Leyland v Armstrong*, what was at issue was Article 82, abuse of a dominant position, rather than Article 81, and the relevant considerations may differ in Article 82 cases.)
49. Here, Mr Randolph submitted, there is a close connection. The claim against the Appellant is all about the Garment Codes, since what is complained of is the marketing of garments from which the Garment Codes have been removed. These codes, however, are an integral part of the First Respondent’s system for the preservation of territorial exclusivity and thus the partitioning of the market. That system is not merely inconsistent with Article 28 but, being achieved by agreements, at least that between the two Respondents (even if there are no matching agreements in relation to other Member States), is also in breach of Article 81, subject to proof that it interferes to an appreciable extent with trade between Member States. On the Appellant’s behalf it would be contended that the Respondents’ real concern in the action is to discover the identity of the Appellant’s supplier, and that the expressed concern about the damage to the reputation of the brand is subordinate at best, if it exists at all. Whether that is so would have to be decided on the evidence at trial but Mr Randolph submitted that, on a striking out application, it cannot be assumed that the Appellant will not be able to prove its case on this.
50. The last of the cases on which Mr Randolph relied to show how significant is the protection of Article 81, and therefore the value to the Appellant of being able to rely on it as well as on Article 28, was *Courage v. Crehan*, Case C-453/99, [2001] ECR I-6300, decided on a reference from this court. The main significance of that case was in its decision that a party to a contract which infringed Article 81 might be able to rely on the breach of the Article to claim compensation from the other party. In reaching that conclusion the court said this at paragraphs 19 and 20:

“19. It should be borne in mind, first of all, that the Treaty has created its own legal order, which is integrated into the legal systems of the Member States and which their courts are bound to apply. The subjects of that legal order are not only the Member States but also their nationals. Just as it imposes burdens on individuals, Community law is also intended to give rise to rights which become part of their legal assets. Those rights arise not only where they are expressly granted by the Treaty but also by virtue of obligations which the Treaty imposes in a clearly defined manner both on individuals and on the Member States and the Community institutions (see the judgments in Case 26/62 *Van Gend en Loos* [1963] ECR 1, Case 6/64 *Costa* [1964] ECR 585 and Joined Cases C-6/90 and C-9/90 *Francovich and Others* [1991] ECR I-5357, paragraph 31).

20. Secondly, according to Article 3(g) of the EC Treaty (now, after amendment, Article 3(1)(g) EC), Article 85 of the Treaty constitutes a fundamental provision which is essential for the accomplishment of the tasks entrusted to the Community and, in particular, for the functioning of the internal market (judgment in Case C-126/97 *Eco Swiss* [1999] ECR I-3055, paragraph 36).”

51. It is worth noting that, before Warren J, the Respondents relied both on substance and on pleading for saying that the defence set out in paragraphs 16 and 17 could not succeed as regards nexus: the judge refers to this at paragraph 16 of his judgment. He decided the point on its substance, not on the basis that the Appellant had not pleaded its case properly. There is no Respondent’s Notice asking the court to uphold the decision, alternatively, on the pleading point. Accordingly the appeal must succeed or fail on the substance of the point, whatever one might say about whether, and if so how clearly, the Defence sets out the case which Mr Randolph developed before us.
52. On the basis of the cases cited, from which I have quoted the most relevant passages, Mr Randolph submitted that the judge was wrong when he held, at paragraph 21, that a defence on the basis of artificial partitioning of the market had nothing to do with Article 81, and that Article 81 could not add to the Appellant’s protection under Community law if it had no relevant defence under other provisions, and similarly, in saying in paragraph 22 that Article 81 could not add to the Appellant’s ability to resist the Respondents’ assertion of legitimate reasons under section 12(2). He relied particularly on the words of the court in *Consten and Grundig* to the effect that “Article 36 ... cannot limit the field of application of Article 85”, on the passages from the judgment in *Sirena v Eda* quoted at paragraph 45 above, and on paragraph 20 in the judgment in *Courage v Crehan*, quoted at paragraph 50 above. Mr Randolph challenged the judge’s paragraph 23, particularly on the basis that, while the basis for the words in parenthesis is unclear, on their face they appear to allow for the possibility of a defence under Community law which otherwise the judge held not to exist.
53. In opposition to these submissions, Mr Tritton contended that, notwithstanding many attempts, there has been no case in which reliance on Article 81 has enabled a parallel importer to resist enforcement of trade mark rights on the part of the proprietor of the mark. He observed that this is not surprising, on the basis that the enforcement of trade mark rights and the enforcement of Community competition law are two quite

separate and distinct exercises. There is no reason, he said, why the one should get involved with the other. The enforcement of trade mark rights is concerned solely with the reputation of the brand and the maker, which is regarded by Community law as an important consideration in aid of an efficient market. If such rights are abused, the parties responsible will incur sanctions under competition law, either by way of regulation in the public sphere or as regards compensation for private parties affected. They do not lose the ability to protect the reputation of their trade marks.

54. He invited us to consider the position as it would be if the Garment Codes had not been removed. There would be no other material to provide a legitimate reason for enforcement under section 12(2), so that the Respondents could not enforce their trade marks. If they sought to impose legal or other sanctions against the Appellant's supplier, Article 81 would clearly be relevant, at least on the part of that supplier, and could give rise to claims against the Respondents. That is no doubt true, but I do not find the contrast helpful, since it is the very removal of the Garment Codes that gives rise to the asserted basis on which the Respondents claim to be able to rely on section 12(2).
55. He also sought to distinguish *Consten and Grundig* as being concerned with enforcement of competition law by the Commission, not with enforcement (or not) of trade mark rights by the proprietor of a mark. That is true, but one of the sanctions imposed by the Commission in that case was an order which, in effect, required the parties to refrain from using trade mark rights in order to set an obstacle in the way of parallel trading (see the passage quoted at paragraph 43 above). If the Commission can impose such an order, I do not see why it should necessarily be regarded as impossible for such an order to be granted in proceedings brought by an undertaking affected by the anti-competitive conduct. That would govern the position for the future. By analogy, the need for an effective remedy might, it seems to me, arguably be regarded as a sufficient basis to justify a court in treating a closely connected breach of Article 81 as a defence to an infringement action in respect of the past as well as a reason not to grant an injunction to restrain infringement for the future.
56. It is fair to say, as Mr Tritton pointed out, that *Consten and Grundig* and *Sirena v Eda* were both decided at a fairly early stage of the development of Community law which led to the doctrine of exhaustion of rights, which eventually came to be reflected in Article 7 of the Trade Marks Directive. I do not see that as a reason for disregarding those decisions or the conclusions which can properly be drawn from them.
57. Mr Tritton also pointed out that the protection of a trade mark against parallel imports from outside the EEA is entirely legitimate, and that therefore it does not follow from the reference in article 13 of the agreement to "counterfeit and parallel issues" that the objective of the agreement is not legitimate. That is a fair point in itself, but does not overcome the assumption which has to be made for present purposes that the agreement could be shown at trial to be in breach of Article 81.

### **Litigation pursuant to an agreement in breach of Article 81**

58. The point taken in relation to paragraph 18 of the Defence is said to be rather different, and does turn in part on the pleading. However, the two lines of argument overlap, or at least interrelate, so I will consider those arguments next before expressing a conclusion.

59. The Appellant's case in this respect is that the Respondents' proceedings are acts done as the object, means or consequence of an agreement prohibited by Article 81, and are thus in themselves contrary to the Article. The Respondents objected to the lack of detail in the allegation, though also to its inherent inadequacy, on the basis that an action for trade mark infringement could never itself be prohibited under Article 81.

60. After the hearing the Appellant put forward an amendment to this paragraph. This consisted of adding a cross-reference, by way of particulars, to material set out in the proposed new paragraph 17 which would plead the appreciable effect of the agreements on trade between Member States. The relevant part of this which was said to be relevant to what had been paragraph 18 (renumbered as 19) was as follows:

“The present proceedings have been brought pursuant to Clause 13 of the Distribution Contract and, in consequence of the existence of these proceedings, Mr Ghattaura has stopped selling STONE ISLAND clothing [certain losses to the Defendants in the two actions are then alleged]. Third parties (including the Defendant) are hindered and/or discouraged from engaging in parallel trade in the goods with the Garment Codes removed.”

61. The judge referred to the provisions of article 13 of the agreement, which I have set out above, and noted that the article did not require the commencement of any proceedings. He also noted that there could be matters which were the subject of legitimate concern under article 13 without any infringement of Article 81, including both counterfeiting and parallel imports from outside the EEA. He also referred to cases cited to him, of which one was also cited to us, to which I will return. He concluded as follows:

“33. However, in the present case, the Defendant relies on Clause/Article 13 as the agreement giving rise to the breach of Article 81 and not on any other agreement or concerted practice, as is made clear by the draft amended Defence. It has not, for instance, been argued by the Defendant that the mere bringing of these two sets of proceedings by the Claimants is a breach of Article 81. The Defence is that these proceedings have been brought “pursuant” to the agreement. But, on my reading of Clause/Article 13 that is not the case. The proceedings are not, so far as I can see, brought pursuant to that Clause/Article at all since, as just pointed out, there is no obligation on either party to commence proceedings. Moreover, as also pointed out, the provision is capable of operating perfectly legally. On these grounds, I would refuse to allow the amendment to the Defence. I would strike out the existing Defence also since the reference in it to the “agreement” is, without the particulars provided in the draft amended Defence, insufficiently particularised (and it has, in any event, been made clear, by the draft amendment, that the agreement referred to is the 2004 Distribution Agreement).”

62. The Appellant did not seek to appeal against the refusal of permission to amend in this respect. It took its stand, therefore, on the original text without added particulars.

63. Mr Tritton submitted that the Appellant's Notice, though it asserts that the judge was wrong to strike out paragraph 18, does not advance any reasons in support of that other than those related to the nexus argument, nor do the skeleton arguments submitted in support of the appeal. In each case paragraph 18 is treated as covered by the arguments about the sufficiency of the nexus between the anti-competitive agreement alleged and the attempt to enforce the Respondents trade mark rights. Those comments are justified. It seems to me that, although paragraph 18 is introduced by the familiar words "further or alternatively", it does not really raise a separate defence but presents an additional aspect of that relied on under paragraphs 16 and 17. It therefore stands or falls with them.
64. The case on which Mr Randolph principally relies in this respect is the decision of Laddie J in *Glaxo Group Ltd v. Dowelhurst Ltd* [2000] FSR 371. Eight pharmaceutical companies had brought five actions for trade mark infringement against one parallel importer and two actions against another. The Defendants applied for permission to amend their defences so as to allege that the proceedings had been brought or continued pursuant to, or were affected by, an agreement or concerted practice contrary to Article 81, which affected trade between Member States and which had as its object and effect the restriction, distortion or prevention of competition. Among the questions argued was whether, even if the proceedings were brought pursuant to such a concerted practice, it was arguable in law that this could be a defence to the claim. The report does not set out the amendment or refer to it in any detail. The judge described the effect of the proposed amendment at paragraph 11, as follows:
- "They say that if this is so, the present proceedings are or have become a tool used illegitimately by the claimants to further an objective which is contrary to the provisions of the Treaty of Rome. This gives them not only a defence to the current proceedings but an entitlement to claim compensation. Importantly, the defendants argue that this defence and counterclaim is available to them even if (which they do not admit) they have infringed the claimants' trade mark rights. The effect of success on these grounds may be, therefore, to restrict the right of proprietors of the trade marks in issue to enforce them against infringers, at least to the extent that such enforcement is a part of an illicit concerted practice."
65. The judge held that the amendments should be allowed. He accepted that Community law did not, generally, take away intellectual property rights, but said that it could and did affect the way in which they could be exercised, and that it did not follow that, because a trade mark proprietor could take proceedings for infringement on his own, he could do the same in co-operation with others by way of a collaborative attack on parallel importers. The judge did point out that some difficult issues might arise if the defence succeeded, in that what would be prohibited would be the concerted action, not the basic right to sue for infringement of the trade mark. The following passages from the judgment show the judge's reasoning, starting with paragraph 16 in which the judge commented on the submission by Counsel for the various Claimants that the bringing of proceedings in itself was lawful and proper, and that there could be no valid objection to several proprietors bringing separate proceedings to enforce their several rights.

“16. These are powerful and attractive arguments. If, pursuant to Article 7(2) of the Trade Mark Directive and the line of cases ending in *Paranova*, it is legitimate to use a trade mark in certain circumstances to restrict or interfere with intra-community trade in the proprietor’s own goods, how can it offend against the provisions of Article 81 if two or more trade mark owners collaborate in the enforcement of their rights? If the defendants are right, the trade mark owners are deprived of their legal rights to object to infringement.

17. However, the issues are not as simple as the claimants’ arguments would suggest. Most of the numerous cases in the ECJ on exhaustion of intellectual property rights involved the argument that the proprietor was entitled to enforce his national rights. To stop a patentee from suing an importer of his products under his national patent rights was to deprive the proprietor of some of those rights. But this argument has not prevailed. Save in very special circumstances, of which *Radio Telefis Eireann and Independent Television Publications Ltd v. European Commission* [1995] E.C.R. I-743 (*Magill II*) may be an example, the Treaty of Rome does not take away a proprietor’s property rights but it may affect the way he exploits them. Furthermore it is not sound to argue that because a trader can do something alone he must be free to do the same thing in concert with others. A single trader acting alone, assuming he does not hold a dominant position in the market, has the right to raise and lower prices as he wishes. He can refuse to buy from or sell to anyone he likes, even if his objective is to harm competitors and prevent importation of goods. But he may well be prohibited from agreeing with others to form a competition-distorting cartel to do all or any of these things. This is not surprising. Our law of conspiracy recognises that in trade, as in war, it is easier to fight one to one than against a phalanx. Similarly, in many respects provisions in the Treaty are designed to enforce a level playing field between competitors. This does not take away from the individual trader the right to raise or lower prices. All it does is prevent him from obtaining the additional commercial weight of working in collaboration with others. As Mr Green puts it, litigation embarked upon by individual traders is unlikely to have the same form and intensity as litigation embarked upon by them as a group, nor will it have the same economic effect.”

Later the judge said this, at paragraph 20:

“20. ... But it is the co-operation with others to effect the illicit purpose which offends against Article 81. The defendants here are not complaining of the enforcement of the claimants’ rights *per se*. The fact that trade mark law provides a tool which makes it easy to achieve an offensive end does not legitimise the co-operation. On the contrary, the fact that these rights can easily be used to impede free movement of goods within the EEA may make them attractive tools to a group of co-operatively-minded traders who wish to achieve that objective. The choice of those tools may throw light on the purpose of the co-

operation. It is not the trade mark rights which offend against the provisions of Article 85(1) but the co-operative use to which they are put. The ends may contaminate the means. Even though *Silhouette*, Article 7(2) of the Trade Mark Directive and *Paranova* all allow a proprietor to hinder the free movement of his own goods to some extent, the ability to do this on his own does not mean that he is similarly entitled to club together with others so as to put in place a collaborative attack on parallel importers.”

The judge then quoted paragraphs 7 and 9 from *Sirena v Eda*, set out at paragraph 45 above.

66. The judge addressed the problem of distinguishing between prohibiting concerted action by way of litigation and not prohibiting individual litigation in paragraph 22:

“22. Nor is it accurate to say, as the claimants do, that the defendants in these proceedings are attempting to deprive them of their right to litigate. Once again, all that the defendants can complain of is the alleged concerted practice and its implementation by the claimants. Even if the pleadings are allowed to be amended and the defendants win at the trial, that does not mean that the individual trade mark owners are deprived of the right to sue for infringement. Mr Green concedes, as he has to, that they can. The impact of an adverse finding would be to prevent them from litigating in concert. This may create practical difficulties. If bringing proceedings in concert is prohibited but bringing them individually and independently is not, how do you distinguish one from the other? ... So here, if the amendments are allowed and the concerted practice is proved, any relief granted will have to be carefully worded to prevent the collaboration but without taking away the right to sue for infringement of trade mark.”

His conclusion on this point is at paragraph 25:

“25. It appears to me that if there was a concerted practice as alleged, if the claimants here were parties to it and if the commencement or continuation of these proceedings is part of that concerted practice, it is at least arguable in the current state of European law that the defendants will have a defence or a claim for compensation. As I have indicated above, even if the defendants make out all of their allegations, there could well be difficult questions of what relief would be appropriate on their counterclaim but that is not a matter on which I have been addressed.”

67. This seems to me to show that Laddie J regarded as arguable the proposition that, if litigation is brought to enforce trade mark rights pursuant to an agreement or a concerted practice which could have an appreciable effect on trade between Member States, the fact that it is so brought may afford the defendant a defence as well as a counterclaim. Mr Tritton criticised the judge’s formulation in that paragraph, submitting that he should have said that the allegations provided no defence but did provide the basis for a counterclaim. However, the judge said what he did say, for all



that he recognised that there would be problems in deciding on the appropriate relief if the Defendant succeeded on this point.

68. Mr Randolph sought to apply that authority to the present case not only in support of his argument that a breach of Article 81 in this field may provide a shield as well as a sword, but also by pointing out that in the present case the allegation is that the two claims, against the Appellant and against Mr Ghattaura, were brought pursuant to an actual agreement, not merely to a concerted practice as was alleged in *Glaxo Group v Dowelhurst*. Of course, in any case where there is an allegation of market partitioning, there is likely to be at least one agreement, and probably several, between the manufacturer and one or several distributors in different territories. In the present case the Appellant can point to provisions in the 2004 agreement which, though they do not oblige either party to enter into litigation, do contemplate it in article 13, with its reference to legal costs, and to settlement “whether derived by legal action or not”. The scale of operations in the present case is likely to be different to that involved in the *Glaxo* cases, where eight pharmaceutical companies brought proceedings, but if the threshold test of appreciable effect on trade between Member States is satisfied, then, Mr Randolph submitted, it matters not, in principle, whether the anti-competitive operation is on a large or a smaller scale.
69. As appears from paragraph 33 of his judgment, quoted above, Warren J considered that the allegation in paragraph 18, understood as relating to the 2004 agreement, could not succeed because there was no obligation in the agreement, in particular in article 13, to bring proceedings. For myself I doubt whether it is necessary that there should be any such obligation if the issue is whether the litigation is brought pursuant to an agreement. It seems to me that it is arguable that it would be sufficient to show, as can be done on the basis of article 13, that the parties to the agreement contemplated legal proceedings, and provided to some extent at least for the financing of those proceedings, as well as agreeing as to the destination of any money recovered.
70. The judge did go on, at paragraph 34, to express great doubt as to whether there was any realistic prospect of showing that the two claims brought by the Respondents constituted a breach of Article 81 even if they were brought in pursuance of an agreement or concerted practice. That may be a fair point on the facts. It is also less significant if, as I consider, paragraph 18 of the defence ought to be regarded as an aspect of the point relied on at paragraphs 16 and 17, not as a separate defence.

## **Conclusion**

71. Looking at the point in that light, and returning, therefore, to the essential issue which is whether the judge was right to strike out the three paragraphs on the basis that there was no adequate nexus, it seems to me that the judge was wrong to conclude that the defence was bound to fail, on the basis that there was no arguable case of an adequate nexus between the anti-competitive agreement alleged, on the one hand, and the issue whether the Respondents have legitimate reasons to oppose further distribution under section 12(2) on the other. Mr Randolph submitted that it was wrong to strike these allegations out as the relevant law is developing, and its eventual state cannot be predicted. It is true that there has been a good deal of litigious activity recently, including references to the European Court of Justice, in relation to parallel imports of pharmaceutical products and the issue of relabelling. How germane that is to the

questions in the present case is not clear. However, it seems to me that there are unresolved issues of Community law, which are or may be relevant to the present case, depending on the findings of fact made at trial. On that basis, it does seem to me that the judge should not have been satisfied that this defence was necessarily bound to fail. I do not regard it as clear that a breach of Article 81 can only constitute a claim, not a defence, in any circumstances. It seems to me well arguable that to be able to prove that a relevant agreement is in breach of Article 81 would give a Defendant a stronger basis for saying that the Claimant does not have legitimate reasons under section 12(2). I do not decide that the Defendant's position on either of these points is necessarily right as a matter of law, even if the necessary facts can be established. But it does seem to me that the points are sufficiently arguable for it to be wrong to strike these paragraphs out of the Defence.

72. I recognise the importance of the point in relation to litigation which is near to trial and, as I understand it, currently estimated for a hearing lasting three days. The introduction of an Article 81 defence will add to the burden on the Respondents by way of disclosure, may give rise to a need for expert evidence, and may therefore drive up the costs of the litigation, and delay its resolution significantly. To hold, as I would, that the paragraphs ought not to have been struck out will mean that the trial has to be adjourned. Assuming that the remaining pleading deficiencies can be cured, it will be desirable for the future case management of the claim to address and, so far as possible, confine the additional preparation that will be necessary, by way of disclosure and evidence.
73. For the reasons I have given, I would hold that paragraphs 16 to 18 of the Defence are not unarguable for lack of a legally sufficient nexus. Whether such nexus as is proved at trial will be held to be sufficient, in law as well as in fact, is a matter for the trial judge. I do not regard paragraph 18 as a separate defence but, on the basis that the agreement referred to is the 2004 distribution agreement and that the point is no more than a further aspect of the point taken at paragraphs 16 and 17, I would not regard it as fatally flawed either.
74. The question of an adequate pleading as to appreciable effect remains to be decided. I would allow the appeal and discharge the order striking out the three paragraphs, but I would remit the Respondents' striking out application to the Chancery Division for the outstanding pleading issue to be resolved. It may also be appropriate for the original paragraph 18 to be amended to bring it into line with the legitimate basis on which, in my judgment, it can stand, namely as a further aspect of the defence already pleaded in the previous paragraphs, and as relating to the 2004 agreement.

### **Lord Justice Longmore**

75. It is a well-known and rather disturbing fact that it costs far more to resolve intellectual property disputes in England than in other parts of the EEA. This case is a good example. The parties have elected to spend considerable sums of money in making detailed submissions about 3 paragraphs of a pleading, before any trial of what may be called the merits of the dispute will take place. I agree with Lloyd LJ that, for the reasons he gives, this appeal must be allowed. That means that the date currently fixed for a 3 day trial will have to be vacated; this will inevitably cause further delay and further expense. That is regrettable but follows from our procedural rule that a defence, which is arguable, should not be struck out before trial.

76. Undoubtedly it would be convenient if it were possible to hold that the Article 81 issue could only be used as a sword rather than a shield so that competition issues could not be used to muddy the waters of (here) a comparatively straightforward trade mark dispute. But convenience is not always the same as justice and I have been, a little reluctantly, persuaded by Mr Randolph's submissions that it is arguable that European Community law does not invariably allow trade mark issues and anti-competition issues to be compartmentalised and separated from one another. It may turn out at trial that the defendant will be able to rely on section 12(2) of the Trade Marks Act 1994 to defeat the claimant's claim but, as my Lord has said in paragraph 71 above, it is not possible to be sure that the defendant's position will not be stronger if it can also establish a breach of Article 81. That is something which, in my view, the European case law, at any rate arguably, entitles the defendant to do.
77. I would, therefore, allow the appeal and, agreeing with my Lord, remit the striking out application to the Chancery Division for the outstanding pleading issue to be resolved and for directions as to the further conduct of the action.

**Lord Justice Waller**

78. I agree for the reasons given by Lloyd LJ that this appeal must be allowed. I also share his concerns, and those of Longmore LJ, and express the hope that sensible agreements between the parties can assist in limiting disclosure and in keeping costs within reasonable bounds.