

## Has Goliath spoiled the battle-ground for the other Philistines?

The *Oracle* case: a warning from the Court of Appeal

This year's David v Goliath case is *Oracle America, Inc v M-Tech Data Limited & S K Lichtenstein [2010] EWCA Civ 997*, with judgment issued by the English Court of Appeal on 24 August 2010.

It is an unlikely fight over 64 used computer disk drives, starting as an application for 'summary judgment' in the High Court of Justice decided in favour of Oracle, which was then successfully overturned by the Court of Appeal. The case has such serious financial and economic implications for the UK, Europe and even other parts of the world that it seems likely to end up in the European Court of Justice.

How can a dispute over 64 used computer components be worth all this time and expense?

### The players

The part of "David" is played by *M-Tech Data Limited*, an independent reseller of branded IT products from Manchester (with a supporting role from M-Tech's director, Mr Stephen Lichtenstein, who was personally named in the litigation). According to its website, M-Tech has around a dozen sales representatives, as well as handful of people in administration and warehousing.



In this version of the story, "Goliath" is *Oracle America, Inc*: formerly *Sun Microsystems, Inc*. Sun was the well known manufacturer of computer systems and components, as well as software and associated services. Sun's components are (still) in demand all over the world, and are often sold many times over. In April 2010, following the sale of Sun Microsystems to Oracle Corporation, Sun changed its name to Oracle America, Inc. According to *Forbes Magazine's Global 2000* (published in April 2010), Oracle Corporation is the 36th largest company in the world, with a market value of US\$124 billion.

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## So, what's the case about?

M-Tech imported into the UK 64 second-hand "Sun Microsystems" branded disk drives from a broker in the United States of America, and then re-sold them to a UK company. Although M-Tech did not know it, all of these used disk drives were first sold in markets outside the European Economic Area (the "EEA"): some in the USA, some in Chile and some in China.

The act of importing into a country or market (such as the EEA) goods first sold elsewhere in the world is called 'parallel importing'. It is a controversial practice, allowed in some jurisdictions, but not in others. Parallel importing happens because manufacturers can sell exactly the same goods for different prices in different parts of the world.

For example, a manufacturer may sell the same product in the USA for US\$90, but in the UK for £100 (c. US\$150). A 'parallel' importer would buy the product in the USA, and export it to the UK reselling it for, say, £80 (c. US\$120); still making a profit, but undercutting the UK price.

Parallel importing is often referred to as the 'grey market'. This is because, although the sale of the goods themselves is legal, the 'parallel' importation of them is not authorised by the manufacturer. (This is different to the 'black market', which either involves illegal methods of selling or the sale of illicit goods themselves.)



## How can manufacturers enforce differential pricing?

Manufacturers sometimes use (although, some would say "exploit") the differences in trademark registration systems around the world to segregate different world markets.

A trademark is (usually) the manufacturer's brand name or logo on a product or its packaging identifying the product as being made by that manufacturer. Famous examples include Coca-Cola and Adidas.

The intended purpose of trademarks is twofold:

1. A trademark helps prevent confusion or deception in the marketplace, allowing consumers easily to differentiate competing products and their actual (or perceived) attributes. Mercedes-Benz, for instance, is different from Peugeot, which is different again from Vauxhall.

2. A trademark protects the manufacturer's "goodwill": the brand reputation it has built up by, for example, investing in research and development, or styling and utility.

Unscrupulous companies, which might otherwise try to pass their goods off as a well-known brand, cannot use any brand name or logo which is the same (or confusingly similar) to a genuine trademark.

Different legal jurisdictions operate separate systems of trademark registration. In Europe, for example, it is possible to obtain a Community Trade Mark ("CTM"), which will give trademark protection for all states within the EEA. A peculiarity of these separate systems is that, even if there are identical products made by the same manufacturer, but one has a trademark from, for example, the United States of America, that USA-branded (but otherwise identical) product cannot be imported into the EEA without consent of the (same) manufacturer.

As a result manufacturers can create separate markets (and therefore different pricing in each market), defined and enforced by the different trademark jurisdictions in the world. This is the way that Sun (now Oracle) was able to sell the same hardware at different prices in Europe, the USA, China and Chile. When M-Tech tried to import into the UK any disk drive first sold outside the EEA, it was allegedly infringing Sun's European trademark rights.

That was the basis on which Sun applied for 'summary judgment' in the High Court. (This is where a party can obtain immediate judgment from the Court without having to go through the normal, and sometimes lengthy, trial procedure. The party applying for summary judgment must show that there is "no arguable defence" to the claim.

In this case, it appeared to be quite straightforward for Sun: M-Tech had clearly infringed Sun's European trademark by importing the 64 used disk drives. Sun had a list revealing the serial numbers of all Sun disk drives made, and where in the world they had first been sold. Sun therefore won the first round.

### Appeal to the Court of Appeal

M-Tech applied to have the case heard by the Court of Appeal, and claimed that Sun should not have been granted summary judgment by the High Court, because there *were* "arguable defences" to Sun's claim of trademark infringement. This is where things became complicated.

M-Tech claimed that the case was not simply about trademark infringement, and asked the Court of Appeal to consider the conflicting principles of the European trademark law (from the *European Trademark Directive 1998* (89/104/EEC)) and European competition law (found in the *Treaty on the Functioning of the European Union* (2008/C 115/01)).

M-Tech succeeded in its appeal and the Court of Appeal overturned the High Court's judgment. Round 2 to M-Tech.

Lady Justice Arden (who delivered the Court of Appeal's judgment) made some scathing observations about the way Sun/Oracle had behaved:

1. Oracle refused to publish any information allowing independent resellers to identify whether they were entitled to import Oracle hardware into Europe.
2. That refusal was part of a deliberate policy by Oracle designed to make trade in 'authorised' imports as difficult as possible.
3. Oracle had tried, by using contract law, to keep resale of its hardware within the 'authorised' Oracle supply network (unless a particular item could not be supplied from within that network).
4. Oracle aggressively litigated any trademark infringement if independent resellers tried to sell any Oracle hardware which had not been authorised for sale within the EEA.
5. Oracle's practices deterred the import of Oracle hardware by independent dealers, whether or not those products were authorised for sale within the EEA or not.
6. The enforcement of Oracle's exclusive rights in the trademarks was arguably to prevent the operation of a single market in European trademarked hardware.
7. As a result of Oracle's policy, trade in the independent network had largely disappeared in recent

years. This was detrimental to competition. It also led to artificial partitioning of the European market in second-hand Oracle equipment, allowing Oracle effectively to control that market.

The Court of Appeal ordered the case be returned to the High Court to be considered for an 'expedited' trial and for reference to Europe's highest court, the European Court of Justice.

### Warnings from the case

Oracle is now in a very difficult position. Oracle has acted aggressively towards independent resellers by denying them the information they need to ensure they do not infringe Oracle's trademarks. Having 'set the trap' for independent resellers, Oracle then litigated aggressively, serving as a deterrent to other independent resellers. This allowed Oracle's own, authorised network to thrive at the expense of the competition (including independent resellers).

If M-Tech wins in the end, this may turn out to be a victory for parallel importers all over Europe. Manufacturers might find that they can no longer sell their products in Europe at a higher price than elsewhere in the world.

In a much wider sense, this case demonstrates the dangers of acting too aggressively in business and in litigation: if you crack too many walnuts with a sledge-hammer, you may end up breaking the hammer!

# Major Changes on the Way in UK Defamation Law

## The impact of the United States' SPEECH Act on the UK

On 10 August 2010, the US President, Barack Obama, signed the *Securing the Protection of our Enduring and Established Constitutional Heritage Act*, the "SPEECH Act", which was unanimously passed by the United States' Congress. The SPEECH Act prevents US courts from enforcing foreign judgments in libel cases that would not pass muster by American standards.

The effect of the SPEECH Act is to protect US citizens—primarily writers and journalists—from "Libel Tourism". This is where courts in jurisdictions outside the United States are used to pursue claims in defamation which could not succeed in the US because of the First Amendment to the US Constitution of the United States of America.

The UK courts and the English law on defamation are viewed by the US legislature as too weak in their protection of free speech, particularly as compared with the US courts and the Constitution. The SPEECH Act is designed to give greater protection to US citizens who find themselves on the "wrong side" of foreign defamation laws.

The practical impact of the SPEECH Act will be to protect US citizens who have their assets within the USA. The Act gives the US Federal Court system the power to refuse to recognise and/or enforce any foreign judgment for damages in a



defamation case against a US citizen.

The First Amendment of the Constitution of the United States of America is part of the United States' *Bill of Rights*. The first amendment has a number of prohibitions on making laws restricting freedom, including infringements on *freedom of speech* and the *freedom of the press*.

The SPEECH Act is designed to reinforce the effect of the First Amendment where a ruling or judgment of any foreign court is considered to be "*inconsistent with the free speech guaranteed by the US constitution.*" Even when a successful claimant does not seek to enforce a foreign court's ruling, the law makes it possible for the US defendant to ask for a ruling from the US Federal Court that records the libel judgment as being "*repugnant to the Constitution or laws of the United States,*" offering protection to reputations as well as finances.

The fact that such a law was required at all is a poor reflection on the status of libel law in the United Kingdom. "Libel tourists" flock to London, where claims can result in

judgments of substantial sums, effectively placing some wealthy figures outside the reach of journalism because writing about them might prove too costly.

There is a ground-swell of opinion within the US in favour of reform to the UK's defamation laws under which non-UK citizens can sue US publications with only tangential connections to the United Kingdom.

On 9 July 2010 (a month before the SPEECH Act came into force), the UK's Justice Minister, Lord McNally, announced plans to review the law on defamation to protect free speech and freedom of expression.

The Ministry of Justice said that it would publish a draft *Defamation Bill* for consultation and pre-legislative scrutiny in 2011.

Lord McNally said:

*"Freedom of speech is the foundation of democracy. We need investigative journalism and scientific research to be able to flourish without the fear of unfounded, lengthy and costly defamation and libel cases being brought against them.*

*"We are committed to reforming the law on defamation and want to focus on ensuring that a right and a fair balance is struck between freedom of expression and the protection of reputation."*

The passing into law of the SPEECH Act should serve as a goad to long-overdue reform in the UK.

# Dispute Resolution

Disputes, whether commercial or personal, are an unfortunate product of modern life. We understand how disruptive, expensive and time-consuming disputes are, and therefore work with you to at a practical level to minimise disruption and cost, achieving outcomes that best suits your needs.

The team aims to deliver the most appropriate and cost-effective way to reach a satisfactory conclusion, without being waylaid by the emotional issues which can often cloud sensible judgement. Should a dispute result in court proceedings, rest assured we will guide you through the complex maze of litigation.

We predominantly serve commercial clients; with a number of clients involved in high profile actions in the High Court at the Royal Courts of Justice. The team are experienced in dealing with disputes in UK domestic and international disputes. We are also experts in Alternative Dispute Resolution, such as Arbitration and Mediation.

The Dispute Resolution Department forms part of a multi-disciplinary practice. Where there is more than one aspect to a dispute, we engage the expertise of other professionals within the firm (for example, corporate, employment, immigration, or property) for advice and assistance, to make ensure a seamless and cost-effective service to you.

We are renowned for our responsive, partner-led approach. We deliver advice and guidance with accuracy and speed, and always with the clients' commercial objectives in mind.

We have expertise and experience in a wide range of disputes, including:

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- Debt Collection
- Professional negligence
- Commercial fraud
- Intellectual property (including copyright, anti-piracy, trademark and patents)
- Defamation
- Data protection and privacy
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- Infringement of civil liberties
- Unlawful imprisonment

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