Neutral Citation Number: [2018] EWHC 728 (Ch)

Case No: HC-2015-003973

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INTELLECTUAL PROPERTY LIST (Ch.D)

Manchester Civil Justice Centre
Manchester M60 9DJ

Date: 20/04/2018

Before :

HIS HONOUR JUDGE PELLING QC
SITTING AS A JUDGE OF THE HIGH COURT

Between:

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	(1) LIFESTYLE EQUITIES C.V. (2) LIFESTYLE LICENSING B.V.	**CLAIMANTS**
	- and –	
	(1) SPORTSDIRECT.COM RETAIL LIMITED (2) SPORTS DIRECT INTERNATIONAL PLC (3) SDI (BROOK UK) LIMITED (4) SDI (BROOK EU) LIMITED (5) SDI (BROOK ROW) LIMITED (6) REPUBLIC.COM RETAIL LIMITED (7) AIR-VAL INTERNATIONAL SA (8) MR JONATHAN SPITAL (9) TRADING SCENTS (IVER) LLP (10) TRADING SCENTS LIMITED (11) MR EOIN ALAN MCLEOD (12) BLUEPRINT TRADING SL (13) DIRECT SUPPLIES (IVER) LLP	**DEFENDANTS**

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Mr Thomas St Quintin and Ms Charlotte Blythe (instructed by **Brandsmiths**) for the **Claimants**
Mr Nicholas Saunders QC and Mr Malcolm Birdling (instructed by **Reynolds Porter Chamberlain LLP**) for the **First to Sixth Defendants**

Hearing dates: 1-2, 5-9 March 2018 (Rolls Building) and 20 April 2018 (Manchester CJC)

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Judgment Approved

HH Judge Pelling QC :

Introduction

1. This is the trial of all liability issues that arise in a claim by the claimants for (a) damages or an account of profits for what they allege to have been infringements of various trademarks of which they are the proprietors or licensees that are alleged to have occurred in two periods between 2013 and 2015 and (b) damages for allegedly wrongfully inducing West Coast Capital (USC) limited, a company that at all material times was part of the Sportsdirect Group but is now in administration ("WCC"), to

breach the terms of a Licence Agreement made between WCC and the claimants on 6 June 2014 ("the Agreement") by selling goods bearing the claimants' marks to the sixth defendant ("Republic"). This is also the trial of a counterclaim by the defendants for cancellation of the marks on which the claimants rely.

2. The trial took place between the 1-2 and 5-9 March 2018. I heard oral evidence on behalf of the claimants from Ms Laura Willson, the claimants' senior designer, Mr Eli Haddad ("Mr Haddad"), who describes himself in his witness statement as being the CEO of the claimants, Mr Marc Ball, a consultant and sales agent retained by the claimants to promote the brands the subject of these proceedings and Mr Earl Jacobs who controls a company that is one of the claimants' licensees. Mr Jacobs gave evidence from New York by Video Link because ill health prevented him from travelling to London to give evidence. I heard oral evidence on behalf of the defendants from Mr Sean Nevitt, the defendants' Head of Buying at all times material to these proceedings and Mr Charles Perez, the chief executive of Four Marketing Limited, who gives evidence concerning the UK fashion retail market and the claimants' brand and reputation.

3. The Agreement is governed by Dutch law and expert evidence concerning Dutch law issues relating to the construction, scope and effect of the agreement was given by Mr Michiel Odink on behalf of the claimants and Dr Jeloschek on behalf of the defendants. In the end there was agreement between the experts on most of the Dutch law issues that arise and the differences between them were largely issues of emphasis rather than differences of principle. In those circumstances, the parties agreed that the trial would proceed without the need to call the experts to give evidence.

Background

The Marks

4. The marks with which these proceedings are concerned ("Marks") are:

(a) UK Trade Mark 1259226, consisting of the following mark:

registered with effect from 30 January 1986 in respect of "*... articles of clothing; but not including footwear ...*" in Class 25 ("UK Mark"); and

(b) EU Trade Mark No 5482484, consisting of the following mark:

registered with effect from 17 September 2004 in respect of "*clothing, footwear, headgear"* within class 25 ("EU Mark").

The proprietor of the Marks is the first claimant ("CV"). The second claimant ("BV") is the registered exclusive licensee of the intellectual property rights held by CV. BV is solely owned by CV. CV is a Dutch partnership in which there is only one partner, a US registered corporation controlled by identified proxies for the benefit of Mr Haddad and his children. Mr Haddad accepted in the course of his cross examination that these arrangements are driven by tax efficiency considerations. Mr Haddad lives in the US and works there when not travelling and working elsewhere on business. Although CV is ostensibly controlled by various proxies including Mr Haddad's son Daniel, acting nominally in the name of the US corporation that is the sole partner in CV, there is no dispute that BV is controlled by Mr Haddad. Given BV's status as licensee of the Marks, it is BV that is mainly relevant to these proceedings rather than CV. The Marks with which these proceedings are concerned are only two of a total of about 119 marks registered by CV and licensed to BV in 94 countries, all of which are concerned with the protection of the Beverly Hills Polo Club brand ("Brand").

The Defendants

5. Although this claim was started against a total of 13 defendants, it is now concerned only with the first to sixth defendants. The remaining defendants were relevant only to a claim concerning cosmetics and skin care products marketed using the Brand. That element of the claimants' claim has been settled.

6. The first to sixth defendants are all members of the Sportsdirect Group. The Group holding company is the second defendant. The first defendant is the main trading company within the Sportsdirect Group. The third to fifth defendants were companies involved in the supply chain for internet sales via the Sportsdirect websites at the time material to these proceedings. The sixth defendant ("Republic") now owns and operates a men's fashion chain of stores called "*USC*". Republic now owns all the USC stores and the USC website, but between February 2013 and January 2015, it owned half the stores with the other half (and the USC website) being owned by WCC. WCC was then a member of the Sportsdirect Group.

7. Whilst the various defendants are separate corporations with separate legal personality, it is clear from the contemporaneous documentation available to me that at an operational level within the Sportsdirect organisation little attention was paid to the distinction between the various companies within the Group. It is necessary to

bear this factor in mind when considering the effect for example of emails passing between executives within the Sportsdirect organisation.

8. It is not suggested that the claimants or Mr Haddad was (and I find that they were not) aware that Republic owned only half the USC stores at any stage prior to the commencement of these proceedings. Mr Haddad's case is, and I find that, Mr Haddad believed at all material times that the USC stores and website were controlled and operated exclusively by WCC. I make that finding for the following reasons.

9. As will become apparent later in this judgment, the only Sportsdirect party to the Agreement was WCC. I am entirely satisfied that had Mr Haddad known that half the USC shops were controlled and operated exclusively by Republic he would have insisted on Republic being joined as a party. As will become apparent, Mr Haddad's principal motivation in procuring the claimants to enter into the Agreement was to ensure that clothing marketed using the Brand was stocked and sold in the USC stores and offered for sale on the USC website. As I explain in more detail below, he regarded the USC outlets as the most prestigious within the Sportsdirect stable. He was very anxious that goods bearing the Brand be offered for sale in those stores for that reason as part of a brand building exercise in the UK. In those circumstances, there is no business or any other logic in him wanting clothing marketed using the Brand to be offered only by those USC stores controlled by WCC and not those controlled by Republic.

10. There is nothing within the internal contemporaneous email traffic that suggests the defendants' executives were attempting to hide the ownership structure of the USC outlets or confine the offer of Brand Goods to those USC outlets controlled by WCC. Rather, the absence of any mention of the ownership structure reflects the fact that those executives were concerned with commercial imperatives rather than legal niceties. This led them for example to equate WCC and USC even though USC was a trading name used both by Republic and WCC. It manifested itself in other ways that I note in passing later in this judgment.

The Brand and Brand Goods

11. The goods sold in the name of the Brand using the Marks consists principally of clothing but also includes watches, spectacles, luggage, cosmetics and skin care products ("Brand Goods"). It does not now and never has included equestrian clothing or equipment.

12. The world market for the Brand Goods divides into that for the USA, that for China and that for the rest of the world. The Brand's use in the USA is controlled by Mr Haddad's brothers. The Brand's use in China is controlled by a third party entity with no formal links to the claimants and the Brand's use in the rest of the world apart from the USA and China is controlled by the claimants. The arrangements that led to this are not material to this dispute although they are developed at some length in the claimants' written evidence.

13. The target customer for Brand Goods at the retail level is described by Mr Haddad in his witness statement as being "*… an upwardly mobile, young urban professional who is inspired by global fashion and trends …*". In order to build brand value by reference to this target audience the Brand Goods are described and marketed by the

claimants as "*affordable luxury*" goods. The defendants' case is that at the time material to these proceedings this was largely if not wholly aspirational so far as the UK clothing market was concerned. In order to build this image (and thus the royalty income that the claimants derive from licencing its use) the claimants' standard licencing agreement requires Brand Goods to be sold wholesale only to retailers that were "*... department stores, speciality stores, mid – tier stores ...*" and prohibits licensees from selling goods to "*... mass merchants, discounters, off-price stores, public market and wholesalers ...*". The claimants' case is that shops operated by the defendants using the Sportsdirect name fall within this prohibited category and that the sale of Brand Goods in such stores damages the Brand because "*... the brand becomes devalued and unattractive to non-discount retailers ...*" selling Brand Goods. This does not appear to be seriously in dispute and is entirely consistent with the explanation given by Mr Nevitt as to why WCC was placed in administration on 13 January 2015. As he puts it in paragraph 63 of his witness statement:

> " The primary reason for the administration was that since Sports Direct acquired USC in 2011, certain well-known brands no longer wanted to supply to USC …"

14. Mr Nevitt describes the USC stores as being a mid-market predominantly men's fashion store but not a high end fashion or luxury store – see paragraph 11 of his witness statement. This accords with Mr Haddad's analysis. He considered that the USC stores were " … *speciality stores, mid – tier stores ...*" and thus suitable for the sale of Brand Goods or at any rate he did so when the Agreement was made between the claimants and WCC. Thus whilst he was very keen that Brand Goods should be stocked and sold at USC shops and on its website, he was equally keen that they should not in any circumstances be sold in shops and on websites using the Sportsdirect name.

The Claimants' Business Model

15. BV exploits the Brand in two ways. Firstly, it designs, produces and distributes Brand Goods directly. This activity appears to be conducted principally in India, the Gulf region and the wider Middle East. These proceedings are not concerned with that element of the claimants' business and it is not necessary that I mention it further.

16. The other element of the claimants' business involves granting licences to third parties that enable those licensees to market and sell wholesale specific categories of Brand Goods in defined territories. Mr Haddad asserts that BV has issued licences to 27 different licensees, of which 10 are based in Europe and 2 in the United Kingdom. One of the UK licensees is a corporate vehicle controlled by Mr Jacobs. His licence enables him to sell luggage and underwear wholesale using the Brand. At all times material to these proceedings, the other UK licensee was a corporate vehicle controlled by Mr Ian Wilson. It was licensed in relation to clothing other than underwear.

17. The methodology by which this part of the claimants' business is carried into effect involves BV designing all relevant products and authorising the manufacture of such goods to the approved design by manufacturers nominated by the claimants' production agent. Most of these manufacturers are based in India although two are based in China. One of the latter relevant to these proceedings was called Runway. As

Mr Haddad accepted in the course of his evidence, before manufacturing can take place in China the consent of the proprietor of the Chinese marks has to be obtained.

18. The claimants' licensees are required to purchase the goods they are licenced to deal in directly from the manufacturers. Although it was suggested by the defendants that the manufacturers were authorised to sell Brand Goods to whomsoever they chose, there is no evidence that was so and it is inherently improbable that such could be the case since it would defeat entirely the protection and exploitation of the Brand and the Marks by BV. What evidence there is suggests that whilst purchase orders were placed by licensees directly with the manufacturers, the administration of the supply process was supervised by the claimants' production agents. This was achieved by requiring that all the commercial paperwork associated with each order (including all purchase orders ("POs"), commercial invoices and letters of credit ("LCs")) be submitted to the manufacturers via BV's production agent or at least copied to BV's production agent. In relation to goods manufactured in India, at all times material to these proceedings, BV's production agent in relation to manufacturers based in India was QD Seatoman Designs Pvt Limited ("QDS"). Ms Willson performed the production agency role in relation to Brand Goods manufactured by Runway.

19. BV's business model involved granting a licence to import into, and redistribute or sell in defined ways in a defined territory, a defined sub-set of Brand Goods to a licensee, who would thereby become obliged to order a minimum quantity of the Brand Goods it had been licenced to import and redistribute from the claimants' authorised manufacturers and pay BV a royalty based on the resale price achieved by the licensee concerned. BV has a standard Licensing Agreement. Although licensees are required to order Brand Goods directly from the manufacturer (or "vendor" as they are sometimes referred to in BV's internal documentation), as I explain in more detail below, the process is supervised and controlled by QDS to whom all orders and LCs are required to be copied. Although there is no direct evidence to this effect, I infer that in reality the manufacturers would not sell goods to licensees otherwise than with the approval of QDS and would refuse to supply if directed to do so by QDS. That was the whole purpose of requiring purchase documentation to be routed through, or copied to QDS.

20. This structure was adopted by BV because it eliminates any risk that it might become legally responsible for any manufacturing costs in respect of goods ordered by its licensees. The claimants insist that such goods are paid for by licensees using LCs issued in favour of the manufacturers concerned. Mr Haddad accepted in the course of his cross examination that this method was adopted in order to eliminate as far as possible any credit risk being run by the manufacturer concerned. He also accepted that this was not altruistic: it was to avoid the risk that manufacturers who were unable to recover manufacturing costs from a licensee would seek to recover such losses from the claimants by threatening to cease manufacturing Brand Goods.

21. Against that background it is necessary now turn to the allegations made by the claimants.

The 2013 Goods

The Infringement

22. In January 2013, the claimants became aware that the first defendant was offering a range of equestrian clothing goods in its Lillywhites stores bearing the Marks ("the 2013 Goods"). That the 2013 Goods were being offered for sale in this manner was first noticed by Mr Jacobs and reported by him to Mr Haddad.

23. It is not in dispute that the 2013 Goods (a) had not been designed or authorised for manufacture by BV and (b) were placed on the market without the consent of the claimants. It is not in dispute that in those circumstances, the offer for sale of the equestrian goods constituted an infringement of the Marks.

24. Mr Haddad repeatedly described this exercise in the course of his evidence, often in unnecessarily aggressive and emotive terms, as the sale of counterfeit goods. The purpose of this was to imply knowing wrongdoing on the part of Sportsdirect. This issue is not substantively relevant to any issue I have to determine. However since the allegation was made and could be damaging to the Sportsdirect group it is appropriate that I should briefly record my findings on that implied assertion.

25. Mr Nevitt maintained, and in my judgment the correspondence that is available and included within the trial bundle supports the defendants' contention, that the use of the Marks in this context was purportedly authorised by the claimants' then apparel licensee in the UK on the basis that the Sportsdirect group would pay a royalty for use of the Marks. I accept that Mr Wilson and his company were not authorised by BV to sub-licence use of the Marks in this fashion (indeed the contrary was not suggested by the defendants at trial) but there is no evidence that suggests that Mr Nevitt nor anyone else at Sportsdirect were aware that such was the case at the time. Thus on the material available to me, there is no evidence of knowing wrong doing on the part of Sportsdirect in relation to the 2013 Goods.

26. Following an exchange of emails between Mr Haddad and Mr Nevitt in July 2013, Mr Nevitt considered the issue closed on the terms then discussed. However, in late October 2013, the first and second defendants received a letter before action from BV's trade mark attorneys Novagraaf dated 25 October 2013. That letter advanced very serious and wide reaching claims on behalf of BV concerning the sale by the defendants of equestrian goods bearing the Marks. This included the assertion that:

> "Damages
>
> Our client's business revolves round the development of luxury brands, luxury goods and licensing rights in the luxury and high end goods sectors. Your infringing acts have resulted in serious damage to our client's business …
>
> Our client's claim in damages amounts to a minimum of £4.2m … "

Although it was asserted that the claimants' brands and goods were "*luxury and high end"* that is not the claimants position in these proceedings. As Mr Haddad put it in an email to Mr Nevitt dated 26 January 2014, in the course of the negotiations leading to the Agreement:

> "We are not positioning our brand at the level of a Tommy or a Diesel. Nor for that matter any other "polo" type brand.
>
> We are emulating the ZARA business model, however, with a western theme brand name and ICON that immediately evokes aspiration.
>
> And at 'affordable luxury' price points. This is enhanced with a full range of synergistic Lifestyle product categories and a marketing campaign that is California cool. …"

Negotiations leading to the Agreement

27. There were lengthy negotiations between the parties arising out of this activity that led eventually to the Agreement. The negotiations commenced in January 2014 and were completed with signature of the Agreement in June of that year.

28. During those negotiations, Mr Haddad acted throughout for the claimants. The commercial negotiations were conducted on behalf of the first and second defendants by Mr Nevitt and Mr Justin Barnes, the chairman of IBSL Consultancy Limited. The first and second defendants instructed Mr Paul Joseph of Reynolds Porter Chamberlain to act on their behalf in relation to the legal aspects of the negotiation.

29. Very properly, Mr Joseph offered Mr Haddad the opportunity of retaining lawyers before negotiations commenced – see his email to Mr Haddad of 13 May 2014 - but Mr Haddad very clearly and emphatically refused that opportunity – see his email response of the same date. That said, Mr Haddad accepted in the course of his evidence, but in any event I find, that at all material times during these negotiations Mr Haddad had lawyers available to him. This is apparent from the fact that at an early stage the claimants instructed their trade mark attorneys Novagraaf to send the letter before action referred to above and because Mr Haddad accepted in the course of his oral evidence that the claimants had at least one lawyer on general retainer. That lawyer performed a general advisory role focussing on IP issues although he was not employed by either claimant. This is a feature of the way in which BV does business. It does not employ its various senior executives but retains them (in some cases through service companies operated by the executive concerned) on a self-employed basis.

30. There is no real dispute but in any event I find that the motivation for the claimants and the defendants in entering into the Agreement were entirely different. The motivations of the parties for entering into the Agreement may be relevant when construing the Agreement because, as I explain in more detail later in this judgment, the Agreement was governed by Dutch law and the Dutch law principles of contractual construction are different from the English law principles.

31. Mr. Nevitt maintained, and I find, that the first and second defendants' primary motivation in initiating negotiations with Mr. Haddad following receipt of the Novagraaf letter before action referred to above and in entering into the Agreement, was to obtain a settlement of the claims against the defendants relating to the offer for sale of the infringing equestrian goods. Mr. Nevitt maintained, and I accept, that however exaggerated the first and second defendants perceived the damages claim to

be, it was one that they wished to have resolved by agreement if at all possible not merely because of the size of the claim but also because of the likely cost of, and the amount of executive time that would be taken up in, defending it. Mr. Nevitt told me and I accept (because it was not challenged) that he learned from Mr. Wilson that Mr. Haddad had a reputation for ruthlessly and irrationally resorting to litigation at the slightest provocation and that this heightened his concerns and his desire to achieve a settlement without litigation if at all possible.

32. So far as Mr. Haddad is concerned, he was entirely clear in his evidence and I accept that his primary motivation in entering into negotiations with the defendant was to ensure that Brand Goods would be offered for sale in the only outlets within the Sportsdirect group that he considered appropriate (the USC shops and website) and to ensure that they were not offered for sale in any shops or websites operated by the defendants using the Sportsdirect name. He saw resolution of the dispute as an opportunity to build the reputation of the Brand in the UK using the USC outlets, which he considered to be outlets perfectly attuned to where he wished to position the Brand.

33. By the end of January the basic commercial terms had been agreed – see the exchange of emails on 18 March 2014. In summary, the Sportsdirect licensee (which at that stage had not been identified by name) would pay to BV a royalty of at least 10% of the retail selling price of the Brand Goods the licensee was licensed to import and distribute, the product would be ordered by the licensee from the suppliers FOB and those purchases were to be funded by letters of credit opened in favour of the suppliers.

34. Under cover of an email dated 2 May 2014, Mr. Haddad sent to Mr. Nevitt a " *... a simplified format agreement with the basic terms we agreed on ...".* The document attached was what became the Agreement. It left the identity of the licensee blank. It described itself as being a "*Licence Agreement*". It included many of the terms that ultimately were included within the Agreement in the same or substantially the same terms as are set out in the Agreement including specifically clause 11.1, which provided amongst other things that the "*... rights licensed under and the benefit of this Licence Agreement are personal to Licensee and do not apply to its subsidiaries and/or affiliates ...".* The draft did not contain any provision settling the dispute concerning the 2013 Goods.

35. This last point was picked up by Mr. Joseph in an email to Mr. Haddad of 14 May, in which he said of the draft "*... I understand the parties entering into this agreement is intended to be in full and final settlement of any claims between the parties to date. Suitable wording will need to be included on this point ..."* to which Mr. Haddad responded "*... JUST PROVIDE US WITH THE WORDING*". At that stage the Licensee under what became the Agreement had not been identified. However, it will be recalled that the claim letter that resulted in the negotiations being commenced had been addressed to the first and second defendants on behalf of BV.

36. On 15 May 2014, Mr. Joseph sent to Mr. Haddad what Mr. Joseph called "*... an updated clean version of the agreement ...".* That version included at clause 2.4 a clause providing that:

> "The parties agree that, on entering into this Licence Agreement all actions claims and disputes between the parties up till the date of entering into Licence Agreement …are hereby settled on a full and final basis and each of the parties waives any rights or remedies it may have in respect of such actions, claims and disputes …"

Clause 11.1 had not been altered by Mr. Joseph. This version for the first time identified WCC as the Licensee. Although unexplained by the evidence, it would appear that this entity was inserted into the draft by Mr. Joseph on instructions from Sportsdirect.

37. Mr. Haddad commented on this draft by an email of 15 May 2014 in which he said:

> "We await you cleaned up final version of the contract … relative to the 250000$ payable on signing in order to make this contract effective.
>
> You will need to modify clause 2.4a and instead of 'upon entering this contract', it should be 'upon fulfilling the terms of this contract'
>
> Also we need to insert in 3.1 that 'the receipt of the required LC finance documents shall be no less than 120 days prior to the required deliveries' "

This last point referred back to clause 3.1 in the draft sent out by Mr. Joseph on 15 May which had said that all Brand Goods "*... shall be purchased via letter of credit ... from suppliers/manufacturers that are designated by Licensor ...*". The need for LCs to be opened prior to delivery was part of the means by which BV's business model removed the risk that suppliers would not receive payment or would incur costs in processing orders for which payment was not received. As I have explained this was fundamental to the way in which BV carried on business.

38. In relation to this last point, Mr. Joseph responded by an email of 21 May 2014 in which he summarized a conversation between him and Mr. Haddad in these terms:

> "On the letters of credit point, as I explained this is not how S[ports]D[irect] operates. Given an LC is nothing more than a bank guarantee of payment, the factories should be able to take the comfort they need from the fact that SD is a FTSE 100 company and can clearly stand behind its purchase obligations …"

This remark was reflective of a lack of focus by the defendants on corporate personality issues mentioned earlier in this judgment. The original letter of claim had been addressed to the first and second defendants because it was only those entities against which the 2013 Goods infringement claim was being made. In that context Mr. Joseph's comment might have had some merit. Once it became clear that WCC was going to be the only contracting party (as it had when the 15 May draft was circulated by Mr. Joseph) then it had none.

39. Mr. Haddad stood firm on this point. This led Mr. Joseph to respond by email on 29 May stating that:

> "Given you're clearly tied to this requirement, SD would on this occasion be able to arrange LCs – that would be via a group company, not USC itself, for operational reasons, but I imagine that would not pose any problems for you … "

40. I pause at this point to note the following. First the issue concerning the point at which the settlement provision was to take effect dropped out of the discussion and never surfaced thereafter. I have no doubt that had Mr. Haddad considered the point one of importance at the time then he would have persisted with it. In fact he was concerned to achieve only one thing – that is the sale of Brand Goods from the USC outlets. Had he remained concerned about this point he would have pressed it just as he had pressed the LC point referred to earlier.

41. Secondly, the 14 May draft identified WCC alone as the Licensee. Had Mr. Joseph been instructed as to the true USC outlet structure then it is difficult to see the reason for not making Republic a party to the Agreement. This supports the point I made earlier in this judgment that the defendants' executives did not focus on the roles of the different companies within the Sportsdirect group but rather on the commercial activity of the group as a whole. Thirdly, although Mr. Joseph referred in his email of 29 May to USC as if it was a corporation, in fact it was merely a trading name or style used for a chain of shops operated by WCC and Republic. However, assuming that the reference to USC is to be read as meaning WCC (which is most probably what Mr. Joseph intended) then it is clear that, from no later than the date of this email, Mr. Haddad's understanding was that LCs would be opened by a company within the Sportsdirect group other than WCC in order to finance WCC's purchase of Brand Goods in its capacity as Licensee under the Agreement. It was not suggested at any stage by the Sportsdirect side that the requirement for purchase supported by LC meant that the licensee had to change or that any other entity apart from WCC would have to be the purchaser of Brand Goods.

42. I have explained the role of the production agent within BV's business model earlier in this judgment. By no later than 14 May, this had been communicated to the relevant Sportsdirect group employees that were or would be responsible for carrying the Agreement into operational effect. By an email of 12 May 2014, Mr. Spears (then BV's Brand Director) wrote by email on behalf of BV explaining that QDS was the "*…agency in India …"* and that it would be "*… the primary executors of the orders …"*. Mr. Spears expanded on this by an email of 15 May 2014 when he described the role of QDS as being:

> "Pretty typical agent function.
>
> Will handle all product dev., commercials and admin (PO, LC, all supply chain/logistic issues) all vendor mgmt. and QC/QA as well as all brand specifications
>
> We do all our buying thru the agent and at this point except for design handover as done now: all ensuing functions including tech design/fits are also done by our team at the agency. "

As far as I am aware there was no further debate concerning the role of QDS prior to the signature of the Agreement. However the point was made even clearer in correspondence following the signature of the Agreement.

43. The Agreement was signed on 6 June 2014.

44. On 10 June 2014, QDS emailed Ms. Smith, one of the USC buying team. In the email, QDS identified the India based vendors of the Brand Goods that were to be supplied for sale in USC outlets by name and described QDS as being the "*… one point contact for all vendors for this business …*" and inviting contact if any assistance was required "*… pertaining to your orders whether it is product or commercial terms …*".

45. On 11 June 2014, Mr. Spears wrote to those at Sportsdirect responsible for carrying the Agreement into operational effect in these terms:

> "I will be stepping out of the production/ supply conversations soon and leave this to agent/USC team for execution but a final note on process before I do.
>
> …
>
> Also note <u>ALL vendor communications</u> must go through or be CC'd to the agent (QDS) … Please keep Laura [Willson] on copy on all Runway communications …
>
> This communication includes but is not limited to: All POs, LCs, Terms of engagement etc …"

It is common ground that Ms. Willson carried out the same function as QDS in relation to the Hong Kong based manufacturers and suppliers. The reference in the email quoted above to "*Runway*" is to the Hong Kong based manufacturer and supplier of Brand Goods to WCC.

46. I have set out in some detail the communications passing between the parties because as I explain below, from a relatively early stage following signature of the Agreement orders were being placed not by WCC, financed by letters of credit opened by another or other companies within the Sportsdirect group, but by the first defendant who paid using letters of credit opened by it.

47. It was submitted on behalf of the defendants that since QDS, Ms. Willson and the suppliers were all aware of this fundamental change, that was sufficient to enable the first defendant to deal in the Brand Goods it acquired using this method free of the constraints that applied to WCC. I explore this issue in greater detail later in this judgment. It is sufficient for present purposes to record my conclusion that the role of QDS and Ms. Willson was as set out in the emails quoted above namely that of an execution agent. Neither were concerned in licensing and neither had authority to vary the terms of licences granted by BV. Although no evidence was called from anyone on behalf of QDS, Ms. Willson did give evidence. She was entirely clear in her evidence that her role was an operational one. She was concerned only with POs and LCs in that context. She did not have authority to licence the use of Brand Goods or the Marks. QDS's position was essentially the same as that of Ms. Willson in relation

to Runway. As Mr. Haddad had made clear in the course of the negotiations leading to the Agreement in an email to Mr. Joseph dated 29 May 2014 when responding to Mr. Joseph's email of the same date confirming the LC arrangements, "*... The licence function and the production functions are separate."* I am entirely sure that all the relevant directors, managers and staff at Sportsdirect understood that to be so since the only information supplied to them concerning the role of QDS and Ms. Willson was contained in the emails referred to above. Those emails are consistent only with that being the position. I return to this issue in more detail when considering the post 6 June infringement claims.

48. The final issue of substance that was the subject of the negotiations leading to the Agreement concerned clause 2.4B. As it had appeared in the 15 May draft, that clause said simply that "*... Licensee acknowledges that the Licensed Merchandise may only be sold directly to consumers or via its internet site."* In my judgment the effect of this provision was entirely clear – WCC was to be permitted to sell the Brand Goods it was to be licensed to deal in only by sale to consumers or via its web site. It was ambiguous as to whether sale to consumers could only be via the USC shops or web site but it was at least clear that it was only retailing that was to be permitted. This is entirely unsurprising given Mr. Haddad's desire to protect the Brand and the motivation of Mr. Haddad and Sportsdirect for entering into the agreement.

49. By an email to Mr. Joseph dated 30 May 2014, Mr. Haddad picked up the ambiguity referred to in the previous paragraph by saying in relation to clause 2.4B that "*... we need to specify that sale is permitted in USC stores and THE USC internet site… the whole purpose of this exercise is brand building at an upmarket retailer and not sales at Sportsdirect. This has been specified several times. Please make sure to add this ..."* Mr. Joseph responded to this by an email dated 1 June 2014 in which he set out clause 2.4B as it appeared in the 15 May draft and then said "*… Licensee is USC itself so this already covers your point. No objection to repeating the words 'USC' rather than it through."*. In fact, technically, USC was not the Licensee and thus the point made by Mr. Haddad had merit. In the end between that email and the signature of the Agreement on 6 June, Clause 2.4B was further redrafted in the terms I set out below.

The Terms of the Agreement

50. As signed, the Agreement was made between WCC as "*Licensee"* and BV as "*Licensor"*. The Agreement was described in its opening rubric as being " *… conditional on the Licensee putting in place Letters of Credit pursuant to clause 3.1 and making payment of the Royalties advance under clause 4.1.*" It is common ground that the Royalties advance payment was made as required by clause 4.1.

51. Various defined terms are set out in clause 1.1 of the Agreement. These included

> "LICENSE AGREEMENT shall mean the document executed by the Licensee entitled: BEVERLY HILLS POLO CLUB TRADEMARK LICENSE AGREEMENT and these TERMS AND CONDITIONS.
>
> LICENSED MERCHANDISE shall mean: mens sportswear.

> …
>
> LICENSEE shall mean the party which executed the attached document entitled BEVERLY HILLS POLO CLUB TRADEMARK LICENSE AGREEMENT as Licensee.
>
> …"

In so far as is material the substantive parts of the Agreement provided that:

> "…
>
> Section 2 - Grant and Term of License; Exploitation of License
>
> 2.1. A. This License Agreement constitutes an exclusive license to use the Licensed Trademarks during the Term in the Territory only in connection with the design, importation, distribution, advertisement, promotion, marketing, shipment, and sale of Licensed Merchandise, provided Licensor shall have the right to design, import, distribute, advertise, promote, market, and ship Licensed Merchandise within the Territory for the subsequent season or license other retailers or wholesalers to do so during the 6-month period preceding the end of the Term provided no such Licensed Merchandise is offered for sale to consumers prior to the end of the Term.
>
> 2.1.B. Licensee shall have a non-exclusive right to manufacture Licensed Merchandise in the Territory (others may have the right to manufacture Licensed Merchandise within the Territory for export and sale outside the Territory) and Licensee shall have the right to import into the Territory Licensed Merchandise manufactured outside the Territory provided Licensee takes reasonable precautions to prevent all Trademark Use Materials from being used otherwise than in connection with the distribution and sale of Licensed Merchandise within the Territory. The Licensee shall not; (i) undertake advertising of Licensed Merchandise in, or specifically aimed at, any country outside the Territory, (ii) actively seek orders for Licensed Merchandise from outside the Territory; or (iii) establish any branch dealing in the sale of Licensed Merchandise outside the Territory.
>
> 2.1. C. Licensee agrees not to use, directly or indirectly, in any manner, the Licensed Trademarks except as specifically provided in this License Agreement.
>
> 2.2. Licensee shall not be permitted to sell Licensed Merchandise or to use Trademark Use Materials which do not comply with Section 3.
>
> …

2.4. B. Licensee acknowledges that the Licensed Merchandise may only be sold directly to consumers at USC stores or via USC's internet site (and not via Sports Direct stores or internet sites).

2.4.C The parties agree that, on entering into this License Agreement all actions, claims and disputes between the parties and their respective group companies, up till the date of entering into License Agreement (including as set out in the letter to IBML from Novagraaf dated 25 October 2013 and related correspondence) are hereby settled on a full and final basis and each of the parties hereby waives any rights or remedies it may have in respect of such actions, claims and disputes.

…

Section 3 – Compliance

3.1 All Licensed Merchandise and all Trademark Use Materials shall be purchased from suppliers /manufacturers that are designated by Licensor backed by standard Letters of Credit. The Licensee recognizes that it will likely take no less than 120 days for goods to be delivered from the date of Letters of Credit being put in place. The Licensor shall procure that goods are delivered no later than 150 days from the date of Letters of Credit being put in place in respect of the relevant order.

…

Section 4 –Royalties

4.1. Licensee agrees to purchase Licensed Merchandise to the value of no less than £800,000 (pounds sterling) and shall pay Royalties to Licensor equal to 10% of Net Sales of Licensed Merchandise. Licensee shall pay $250,000 to Licensor within 7 days of the date of this agreement by way of an advance on the Royalties payable.

4.2. Licensee shall pay to Licensor the Royalties within 30 days of the end of the previous quarter.

…

6.2.A. Licensee acknowledges that Licensor is the owner of the Licensed Trademarks and the goodwill symbolized thereby in the Territory and elsewhere, and Licensee agrees that it acquires no title, property rights, or goodwill in, to, or under the Licensed Trademarks or said goodwill except for the rights specified in this License Agreement. Licensee further acknowledges that the Licensed Trademarks have acquired secondary meaning in the mind of the public. Licensee agrees that it will not, during the term of this License Agreement or thereafter, contest the property rights and ownership of Licensor, in and to the Licensed Trademarks or the goodwill pertaining thereto, or during the term of this License Agreement or thereafter, attack the validity of this License Agreement.

...

Section 9 - Legal Matters

9.1. This License Agreement shall be governed, interpreted, and construed as an agreement made and to be performed entirely within and in accordance with the laws of the Netherlands.

…

Section 11 - General

11.1. Licensee may not (a) assign this License Agreement, (b) grant sublicenses hereunder, or (c) grant any person, firm, or entity any interest in this License Agreement. The rights licensed under and the benefits of this License Agreement are personal to Licensee and do not apply to its subsidiaries and/or affiliates and are not transferable or assignable by Licensee without the prior written consent of Licensor, which consent may be unreasonably withheld. Any transfer in any single transaction or series of transactions of 50% or more of the equity of Licensee shall constitute an assignment requiring Licensor's consent, which consent may be unreasonably withheld.

11.2. This License Agreement sets forth the entire agreement and understanding between the parties with respect to the subject matter of this License Agreement and merges all prior discussions between them with respect to the subject matter of this License Agreement and neither Licensor nor Licensee shall be bound by any conditions, definitions, warranties, or representations other than as expressly provided in this License Agreement or as set forth subsequent to the date hereof in writing and signed by the duly authorized officers of both Licensor and Licensee.

…

11.6. The titles of Sections have been inserted for convenience of reference only and shall have no substantive effect."

The 2013 Goods Infringement Claim

52. BV asserts that it is entitled to maintain an infringement claim in respect of the offer for sale by the first defendant of the 2013 Goods against both the first and second defendants because neither were parties to the Agreement. The first and second defendants deny that BV is entitled to maintain such a claim because, they argue, the first and second defendants are entitled to rely on clause 2.4C. The outcome of this dispute depends on the effect of the Agreement as a matter of Dutch law.

Relevant Dutch Law

53. As is apparent from clause 9 of the Agreement, it was governed by Dutch law. Both parties have adduced expert evidence of Dutch law relevant to the issue of construction of the Agreement and the ability of third parties to benefit from provisions within contracts to which they are not parties. The purpose of such evidence is to establish the Dutch law principles so as to enable me then to construe the Agreement in accordance with those principles – see the authorities summarised by Waller LJ at Paragraphs 66-68 of his judgment in King v. Brandywine Reinsurance Company (UK) Limited [2005] EWCA Civ 235. It is convenient that I set out the applicable principles at this stage in the judgment although the impact of the Agreement extends beyond resolution of the issue between the parties concerning the 2013 Goods.

54. The Netherlands is a Civil Law jurisdiction. Her relevant laws are contained in the Dutch Civil Code. Whilst the Dutch courts do not make law in the common law sense, it was common ground between the experts that decisions of the Supreme Court of the Netherlands establish the correct interpretation of the Code and that interpretation has to be adopted by all lower courts – see Joint Statement of Experts, Paragraphs 8(i) and (iii).

55. In relation to contractual construction the decision of the Supreme Court in Ernies and others v. Haviltex [Case No. 11647, decided 13th March 1981] ("Haviltex") established the general rule that a relationship governed by a written agreement is to be treated as regulated by that agreement on the basis of the meaning that the parties could reasonably ascribe to the provisions of the agreement and on the basis of what they could reasonably expect from one another taking account of all relevant circumstances including without limitation contract negotiations and the subsequent conduct of the parties – see Joint Statement of Experts, Paragraphs 11(ii) and (iii) and 12.

56. Haviltex concerned a contract for the sale and purchase of manufacturing machinery. The courts below the Supreme Court of the Netherlands considered that the issues between the parties were to be resolved by adopting a strictly literal interpretation of the contract between them. The Supreme Court held that this was an impermissible approach and that the Court was required to interpret the contract by deciding what the buyer and seller might each mutually expect from the other in the circumstances applying the familiar Civil Law concept of good faith. The Court also said "… *if in principle the text of the contract may be authoritative it shall nevertheless have to be examined whether Haviltex can invoke in good faith the authorities vested in it under the literal terms of the contract.*". This approach was endorsed by the Supreme Court in Lundiform v. Mexx [Case No. BY8101, decided 5 April 2013].

57. However, both experts are agreed that in certain limited circumstances the court will adopt an approach to contractual construction that accords primary (though not exclusive) importance to the language of the contract as the source from which contractual intention is to be deduced. This exception was established by the decision of the Supreme Court of the Netherlands in Meyer Europe v. Pont Meyer [Case No.2007:AZ 3178, decided 19th January 2007] ("Pont Meyer"). That case was concerned with the effect of a tax indemnity contained in a share sale agreement. In deciding the effect of the tax indemnity the Supreme Court decided that "… *the guiding principle is that decisive importance has to be attached to the most obvious linguistic meaning of those words when read in the light of the other clauses of the SPA that are relevant for the interpretation*." Both experts are agreed that whether this approach is to be adopted depends on (1) the transaction being a commercial contract between "*professional parties*", (2) the level of detail of the contract, (3) whether the contract was negotiated between professional parties represented by expert lawyers and (4) the presence of an "*entire agreement*" clause – see Joint Statement of Experts, Paragraphs 13-14.

58. If the Pont Meyer approach is adopted, the starting point is the wording of the particular provision to be considered. If that wording is unambiguous when read in the light of the other provisions within the Agreement that are relevant for its interpretation then effect is to be given to the literal meaning of the words used. If there is ambiguity in the language used then it will be necessary to look to the wider factual context identified by the Supreme Court in Haviltex.

59. Dutch law recognises that contractual provisions that benefit third parties may be enforced by third party beneficiaries even though they are not parties to the agreement concerned. Article 6.523 of the Dutch Civil Code provides that:

> "1. A contract creates the right for a third person to claim performance from one of the parties or to otherwise invoke the contract against any of them, if the contract contains a stipulation to that effect and if the third person so accepts.
>
> 2. Until its acceptance, the stipulation can be revoked by the stipulator.
>
> …
>
> 4. An irrevocable stipulation which has been made by gratuitous title is deemed accepted if it has come to the attention of the third person and he has not rejected it without delay."

My initial reading of paragraph 1 of Article 6.523 was that what was required was an express contractual provision to the effect that the relevant right was directly enforceable by the third party. However both experts are agreed that this is not correct and that all that is required is a contract that contains "*… either a right to claim performance or a right to otherwise invoke the contract against any of them …"* – see Paragraph 7 of the Supplemental Joint Statement. Since this reproduces the wording of paragraph 1 of Article 6.523, without explaining its effect, the true requirements of this provision remain obscure. No Supreme Court decision has been identified that assists on the issue.

60. The following issues arise at this stage concerning the true scope and effect of the Agreement. In summary they are:

i) Whether (as the first and second defendants maintain but the claimant disputes) clause 2.4C took effect upon execution of the Agreement ("Issue 1"); and

ii) Whether (as the first and second defendants maintain but the claimants dispute) clause 2.4C can be enforced by any company within the group of either party to the Agreement or whether it benefits and is enforceable only by the parties to the Agreement ("Issue 2").

Issue 1

61. In my judgment, whether a strictly <u>Pont Meyer</u> approach or the <u>Haviltex</u> approach is adopted the outcome in relation to the first of these issues is the same. In my judgment the effect of clause 2.4C is that the settlement and waiver agreed between the parties took effect at the latest upon payment of the advance against Royalties. I reach that conclusion for the following reasons.

62. Firstly, I consider the language of clause 2.4C to be unambiguous save, possibly, in one immaterial respect. Although the Agreement is subject to Dutch law the primary language of the individuals representing the parties to it (Mr Nevitt and Mr Joseph for WCC and Mr Haddad for BV) was and is English. That being so, ambiguity is to be judged on that basis. There is no express date of commencement identified in the Agreement. That being so, the words " *... on entering into this License Agreement ..."* can only have meant and could only have been reasonably understood by the parties to mean that the settlement and waiver took effect either on the date when the last of the parties to the Agreement executed it or the date when any true condition precedent to its taking effect was satisfied. There was only one true condition precedent to the Agreement taking effect identified by the parties, being that identified at the outset of the Agreement:

> "This Agreement is conditional on the Licensee … making payment of the Royalties advance under clause 4.1."

It is common ground that this condition has been satisfied. In my judgment that provision was the only one that was or could reasonably have been understood to be a condition precedent to the Agreement taking effect. This is the only provision that either of the parties referred to in terms consistent with it being a condition precedent. Mr Haddad in substance so described it in his email of 15 May 2014 referred to in paragraph 38 above. Mr Joseph did not demur and the wording of this element remained unaltered throughout the negotiation process.

63. It is true to say that the same part of the text also referred to the Agreement being " *... conditional on the Licensee putting in place Letters of Credit pursuant to clause 3.1 …* " However that is immaterial to the issue I am now considering. The claimants do not rely on it as a basis for saying that the settlement and waiver contained in clause

2.4C did not take effect. It is not suggested that this provision was not complied with in relation to any order placed by WCC. In any event, this provision could not operate as a condition precedent to the coming into effect of the Agreement because new LCs had to be opened in respect of each order placed so that neither of the parties could have thought it had such an effect. At best it can mean only that any order placed by WCC for Brand Goods was conditional on the opening of a LC in relation to that Order.

64. Secondly, although Mr Haddad had asked in his email of 15 May that *" … instead of 'upon entering this contract', it should be 'upon fulfilling the terms of this contract … "* Mr. Joseph did not at any stage agree to that change and no such change appeared in any of the drafts or in the Agreement executed by each of the parties. Mr. Haddad accepted in the course of his oral evidence that there was no change in the terms in which clause 2.4C was expressed because he gave way on the point he had made in his email of 15 May – see T2/285/18-21.

Issue 2

65. The next and more difficult issue concerns the ability of parties other than the parties to the Agreement to rely on clause 2.4C. The issue is an important one because that clause provides that the " *… <u>parties</u> agree that … all actions, claims and disputes <u>between the parties and their respective group companies,</u> … are hereby settled on a full and final basis and each of <u>the parties</u> hereby waives any rights or remedies it may have in respect of such actions, claims and disputes*."[Emphasis supplied]. The only parties to the Agreement were WCC and BV. BV maintains that the only party entitled to the benefit of clause 2.4C is WCC, not any other Sportsdirect company, and thus BV is entitled to maintain an infringement claim in respect of the 2013 Goods against the first and second defendants essentially in the terms contemplated by the letter of 25 October 2013.

66. In light of the agreement reached between the Dutch law experts, the issue I have to decide is whether clause 2.4C contains a right exercisable by the parties respective group companies to claim the benefit of the settlement and waiver set out in clause 2.4C against a contracting party. As Mr. St Quintin observes in paragraph 42 of his written closing submissions, this "*… is a matter of construction"*. It is to be resolved applying the principles of construction set out above.

67. I turn now to the relevant Dutch law. As I have said already, what has been agreed between the experts concerning the effect of Art. 6.253 of the Dutch Civil Code is unclear. Had the parties chosen to call the experts it might have been possible to clarify the position but the parties chose not to adopt that course. In those circumstances, I conclude that the effect of their agreement is that enforceability by a non-party does not depend upon the presence within the contract of an express provision providing that the third party or class of third parties concerned may enforce the provision directly, although a provision to that effect would put the issue beyond doubt. I conclude that the agreement between experts that "*… what is relevant is that the agreement between the contractual parties should contain either a right to claim performance or a right otherwise to invoke the contract against any of them …"* means that a stranger to the contract may enforce a term of the contract as if it was a party to the contract if as a matter of construction the clause benefits the third party

concerned and on true construction of the relevant contract the intention of the parties had been to confer on the non-party or class of non-parties a right to claim performance of the relevant contractual provision. In the light of what has been agreed between the experts I do not see what other meaning could be attributed to Art. 6.253.

68. So far it has not been necessary for me to reach a conclusion as to whether the Haviltex approach to contractual construction should be adopted or whether the stricter Pont Meyer approach should be applied. Although the impression created by the submissions made on behalf of the parties and the expert evidence is that this is a binary question I doubt whether that is so. The general principle governing the interpretation of contracts according to Dutch law requires that a fair and reasonable meaning must be arrived at in all cases of ambiguity by enquiring as to the meaning that the parties could reasonably have attached to the provision in question "*... in the particular circumstances at hand ...*" and what each party could reasonably have expected from the other party. Even where the Pont Meyer approach is adopted, these considerations remain relevant although primary importance is attributed to the wording of the contract. That this is so is emphasised by the fact that the parties statements before concluding the contract remain relevant even where there is an entire contract provision within the agreement being construed. The expert evidence does not suggest that the Pont Meyer approach should be adopted only if all the relevant factors identified in that case are in play although logic suggests that the more of those factors are satisfied the greater is the justification for giving primary importance to the contractual language used by the parties.

69. In this case clearly the Agreement was of a commercial nature and the parties were professionals in the sense that each was a sophisticated commercial party. The contract was negotiated. Only one party was legally represented although that was by choice and there is no doubt that the claimants could have had access to lawyers had they chosen to do so. My judgment is that the effect of all this is that the language chosen by the parties should be regarded as a primary consideration in resolving disputed construction issues but even then regard must be had to the factors identified in Haviltex as a check since the object of the construction process remains to ascertain the meaning that the parties could reasonably have attached to the provision in question and what each party could reasonably have expected from the other party.

70. Where the language used is ambiguous then it is likely that the true meaning can only be resolved by approaching the issue in the manner approved in Haviltex – that is by reference to the reasonable expectations of each of the parties regarding the effect of the contract. Unlike the position in English law, the position adopted in the course of negotiations can properly be referred to for the purpose of establishing the meaning that the parties could reasonably have attached to the provision in question and what each party could reasonably have expected from the other party. – see the opinion of Mr Odink at paragraph 4(a) and (b), paragraphs 25, 27 and 45 of Dr Jeloschek's opinion and paragraph 11 (ii) of the Joint Statement.

71. It is necessary therefore to start with the language used by the parties. Clause 2.4C on its face confers a benefit on the contracting parties "*... respective group companies ...*". It was clearly intended that all claims and disputes between all members of all groups would be resolved by discharge and waiver. However, the language used does

not clearly indicate whether the parties intended to confer a directly enforceable benefit on the "*... respective group companies ...*".

72. That said, the context in which the Agreement was negotiated and agreed suggests that it is inherently more likely that the parties intended that the discharge and waiver could be enforced directly by all members of the respective groups. That context includes the fact that only dispute to which the clause could in fact apply was that between the first and second defendants on the one hand and BV on the other concerning the 2013 Goods encapsulated in the the letter from from Novagraaf dated 25 October 2013. That letter had been addressed exclusively to the first and second defendants and concerned activity for which it was alleged that they were exclusively responsible. It was not at any stage alleged that WCC had caused or permitted any infringing activity in relation to the 2013 Goods or that there was any dispute of any kind between WCC and BV down to the date the Agreement was signed or became unconditional. It is inherently highly unlikely that WCC would have expected to have to commence proceedings exclusively for the benefit of either the first or second defendant in such circumstances. There is no evidence that establishes, or from which it can be inferred, that either party reasonably expected that the benefit of clause 2.4C would be lost if one or other of the parties to the Agreement entered liquidation or administration.

73. The conclusions that I have so far reached are further supported by the knowledge of the claimants concerning why Sportsdirect had entered into the negotiations leading to the Agreement. It is clear that the claimants were aware of the importance that Sportsdirect attached to the full and final settlement of the dispute concerning the 2013 Goods. That much is apparent from Mr Joseph's email to Mr Haddad of 14 May 2014 referred to in paragraph 35 above, the antecedent discussions alluded to in that email and the unqualified response from Mr Haddad to that email also set out in paragraph 35 above.

74. Finally, it is clear from the correspondence set out above that neither party expected the claims encapsulated in the Novagraaf letter dated 25 October 2013 to remain extant and available to BV after signature of the Agreement and compliance with the only true condition precedent to the Agreement, much less that they would do so only because one or other of the parties to the Agreement entered liquidation or otherwise ceased to exist. The purpose or at least one of the purposes of the agreement was to bring any claim based on those allegations fully and finally to an end. That much is clear from the express language used by the parties in clause 2.4C. Everything that I have so far considered suggests that the meaning that the parties could reasonably have attached to clause 2.4C was that it contained a settlement and waiver enforceable both by each of the parties to the Agreement against the other and by *respective group companies ...*" and in particular by either the first and or second defendant against BV. It is difficult to see why the parties would have intended that would only be so if WCC was willing to either intervene in proceedings between the first and second defendants and BV or commence proceedings against BV to enforce the discharge and waiver, and none was identified by the claimants. It is this factor that makes BV's position appear opportunistic since it was submitted by Mr St Quintin on behalf of the claimants that "*... had WCC not been dissolved, it might have been able to sue Cs in order to prevent them from bringing this claim against Ds ...*".

75. As against that, Mr St Quintin refers to the email from Mr Joseph of 14 May which refers to wanting to settle claims "*... between the parties ...*". In my judgment this is entirely immaterial to the issues that arise. First, WCC had not been identified as the Sportsdirect party to the agreement at that stage. Secondly, there was not then and never has been a claim between WCC and the claimants whether concerning the 2013 Goods or otherwise. The only dispute was a dispute between BV and the first and second defendants concerning the 2013 Goods. It could not sensibly be suggested therefore that the intention of the parties was that the scope of clause 2.4C was intended by the parties to be confined to disputes between the parties to the Agreement. Finally it ignores the wider language used by the parties in clause 2.4C of the Agreement.

76. In reality, the claimants' main point on the issue I am now considering concerns clause 11.1 of the Agreement. The claimants rely on the statement within the clause that the " *… the benefits of this License Agreement are personal to Licensee and do not apply to its subsidiaries and/or affiliates ...*" as negativing an intention on the part of the parties that clause 2.4C should be directly enforceable by a company in the same group as WCC against BV. The claimants argue that the phrase "*… License Agreement ...*" is defined by clause 1.1 of the Agreement as meaning " *… the document executed by the Licensee entitled: BEVERLY HILLS POLO CLUB TRADEMARK LICENSE AGREEMENT and these TERMS AND CONDITIONS.*" The claimants submit that since clause 2.4C is part of "*... these TERMS AND CONDITIONS*", it follows that when clause 2.4C and clause 11.1 are read together the effect is to indicate a clear and unambiguous intention that clause 2.4C is unenforceable other than at the suit of one of the parties. This is a construction issue to be resolved applying the Dutch law principles referred to earlier.

77. In resolving this issue, it is necessary to start by noting that the sentence relied on by the claimants is quoted without reference to the rest of the clause within which the sentence appears. The whole clause reads:

> "Licensee may not (a) assign this License Agreement, (b) grant sublicenses hereunder, or (c) grant any person, firm, or entity any interest in this License Agreement. The rights licensed under and the benefits of this License Agreement are personal to Licensee and do not apply to its subsidiaries and/or affiliates and are not transferable or assignable by Licensee without the prior written consent of Licensor, which consent may be unreasonably withheld. Any transfer in any single transaction or series of transactions of 50% or more of the equity of Licensee shall constitute an assignment requiring Licensor's consent, which consent may be unreasonably withheld."

In context, this provision was contained in the original draft circulated by Mr Haddad at the outset of the negotiations and was not altered at any stage during the negotiations. Indeed as far as I can see it was not at any stage expressly mentioned in the negotiations. There is no evidence of any oral discussion between the parties concerning this provision and it does not appear to have been mentioned in any of the emails by which the negotiations were carried on. The draft originally circulated was a draft licence agreement. It did not contain any provisions concerning the settlement of any antecedent disputes. Clause 11.1 was originally part of a licence agreement and its purpose was to make entirely clear that the licence being granted by BV to the Licensee (the draft agreement being silent at that stage as to who the Licensee was to be) was personal to the Licensee, non-assignable and did not permit the creation of sub-licences. This is a provision that is entirely in keeping with the very strict control that BV maintained over the use of the Marks and Brand. The full sentence containing the words on which BV relies provides that:

> "The rights licensed under and the benefits of this License Agreement are personal to Licensee and do not apply to its subsidiaries and/or affiliates and are not transferable or assignable by Licensee without the prior written consent of Licensor, which consent may be unreasonably withheld."

The "*... benefits ...*" referred to in that sentence are those arising from the " *... rights licensed under ... this License Agreement ...*". In my judgment it is plain that on true construction this sentence does not apply to the release and waiver created by clause 2.4C.

78. Construing clause 11.1 as having the effect for which the claimants contend would fail to give effect to the meaning the parties could reasonably have attached to the provision in question and what each party could reasonably have expected from the other party. My reasons for reaching that conclusion are as follows.

79. First, it is impossible to give effect to the first part of the sentence as the claimants contend without also concluding that the remainder of the sentence would also apply to clause 2.4C. If the construction for which the claimants contend is correct it would therefore follow that WCC could not transfer or assign the benefit of clause 2.4C to either the first or second defendants. Since the only dispute to which the release and waiver contained in clause 2.4C was between BV and the first and second defendants, the result would be to prevent WCC conferring the benefit of the clause on the entities it was intended to benefit without the consent of BV, which on the express language used could be capriciously and arbitrarily withheld. An entitlement to withhold consent in such terms is appropriate when considering the assignment or transfer of what is expressly a personal licence. It is not what either party expected at the time when the agreement was entered into in relation to the discharge and waiver provision.

80. Secondly, the sentence on which the claimant relies is not concerned with direct enforceability of a clause benefitting non-parties but is concerned with whether provisions within the Agreement apply to WCC's "*… subsidiaries and/or affiliates …*" The question of applicability is expressly provided for in clause 2.4C, which expressly states that the discharge and waiver applies to the parties and their "*... respective group companies ...*".. To construe clause 2.4C as not applying to the parties " *... respective group companies ...*" by reference to clause 11.1 would be to ignore the express wording used by the parties in clause 2.4C and thereby fail to give effect to the meaning the parties could reasonably have attached to that provision. Once that point is reached then clause 11.1 becomes irrelevant to the real issue, which is whether clause 2.4C was intended to have direct effect so far as non-party group companies are concerned.

81. Finally, construing clause 11.1 as if it has the effect for which the claimants contend would be contrary to what each party to the Agreement could reasonably have expected from the other party when the negotiations as a whole are considered in the context in which they took place. I have this set out already in detail in paragraphs 36 and 74 above and I do not need to repeat it.

82. In those circumstances, I conclude that clause 11.1 does not affect the question whether clause 2.4C is directly enforceable by the first and second defendants and that clause 2.4C is a contractual provision to which Art.6.253(1) of the Dutch Civil Code applies.

83. It is common ground that Art.6.253 of the Dutch Civil Code requires that a contractual provision to which Art.6.253(1) applies can be revoked by the "*... stipulator ...*" at any time up to its express or deemed acceptance by the relevant third party or parties. The next issue that I have to resolve therefore is whether the first and second defendants expressly accepted or are deemed to have accepted the discharge and waiver contained in clause 2.4C at any time prior to the termination of the Agreement.

84. It is convenient to start with whether in the circumstances, the first and second defendants are deemed to have accepted the benefit of clause 2.4C by application of Art.6.253(4) of the Dutch Civil Code, which it will be recalled provides:

> "An irrevocable stipulation which has been made by gratuitous title is deemed accepted if it has come to the attention of the third person and he has not rejected it without delay."

As will be apparent from this, there are three sub-issues that arise namely (i) whether clause 2.4C is an "… *irrevocable stipulation* ...", (ii) whether it has been made by "*...gratuitous title* ..." and (iii) whether in the circumstances clause 2.4C "*...has come to the attention of ...*" the first and second defendants.

85. In my judgment, clause 2.4C is plainly irrevocable essentially for the reasons already set above in relation to the question whether the clause takes effect upon the later of either payment of the Royalty advance or signature by all parties of the Agreement. There is nothing in the language of the parties that suggests that the discharge and waiver contained within clause 2.4C was anything other than a once and for all discharge and waiver. There is nothing within the language used by the parties that imports either expressly or inferentially any concept of conditional discharge or waiver. The parties negotiating positions concerning clause 2.4C did not even attempt to introduce such a concept. The issue between the parties as summarised by Mr Haddad in his email of 15 May was that he wanted Mr Joseph "*... to modify clause 2.4a and instead of 'upon entering this contract', it should be 'upon fulfilling the terms of this contract'*. As Mr Haddad accepted, his proposal was never agreed and in the end the parties executed an agreement in the terms originally proposed by Mr Joseph with the result that the discharge and waiver took effect "*...on entering into this License Agreement ...*".

86. In any event, clause 2.4C is unambiguously clear that the Agreement was in full and final settlement. Such a concept is logically inconsistent with the notion of revocability. That is, no doubt, why Mr Haddad adopted the position he did in relation

to when the clause was to take effect. Further, it is difficult to see how a waiver can be anything other than an irrevocable act.

87. WCC entered into the Agreement on the basis of an unconditional promise as set out in clause 2.4C and neither party could reasonably have expected that it would be open to BV subsequently to resile from that promise. It would also defeat the subjective intention of WCC in entering into the Agreement. As Mr Odink makes clear in paragraph 4(b) of his Opinion, subjective intention is relevant when construing a contract according to Dutch law since it is one means by which the reasonable expectations of the parties can be ascertained. As I explained in paragraphs 36 and 74 above, WCC's intention was understood by all parties.

88. The next sub-issue is whether the requirement for "...*gratuitous title* ..." is made out in the circumstances of this case. It is common ground between the experts that that the question to be asked is whether the benefit of the clause has been extended to the non-party beneficiaries gratuitously – see paragraph 4(c) of Mr Odinck's Opinion, where he says this requirement "*... refers to the fact that there was/is no consideration from the third party and that the stipulation only leads to advantages for the third party ...*" and paragraph 50(ii) of Dr Jeloschek's opinion where he says that *"... a Dutch court would examine whether third party beneficiaries would have to perform any acts by way of counter-performance or otherwise do something in return ..."*. If and to the extent there is a difference between the experts on this issue, I prefer the evidence of Dr Jeloschek since whether the clause benefits the parties to the agreement concerned is not obviously relevant to whether actual acceptance is required by the nonparty concerned. That is only of relevance where counter performance by the non-party or non-parties is required.

89. The claimants contend that clause 2.4C was not offered gratuitously to the parties " *... respective group companies ..."* in essence because the provision of LCs was fundamental, WCC was unable or unwilling to open LCs and therefore the first defendant did so. In my judgment this submission is mistaken. I reach that conclusion for the following reasons. First, there is nothing within the text of clause 2.4C itself that suggests the discharge and waiver was conditional upon the provision of LCs by any non-party group company or by the first defendant specifically. Secondly, there is no express or implied obligation imposed on either the first or second defendant that requires them or either of them to open LCs in order to finance orders of Brand Goods placed by WCC. The preamble to the Agreement imposes a condition that purports to make the Agreement "*... conditional on <u>the Licensee</u> putting in place Letters of Credit pursuant to clause 3.1 ..."* (emphasis supplied) and clause 3.1 does not impose any obligation on either the first or second defendant to open LCs in order to finance purchases of Brand Goods by WCC either. The position of the parties in the course of the negotiations had not been that LCs had to be provided by the first defendant but rather that all goods ordered had to be paid for by LCs opened at least 120 days prior to delivery of Brand Goods ordered. Had it been otherwise then it would have been necessary for the first defendant to have been a party to the Agreement.

90. The final sub-issue that arises is whether, in all the circumstances, clause 2.4C "*...has come to the attention of ..."* the first and second defendants. It cannot sensibly be suggested that this requirement has not been satisfied in the circumstances of this case. Mr Nevitt first became involved in the negotiations leading to the Agreement

because of the claim that had been made by BV against the first and second defendants. There can be no sensible doubt that he was acting for the Sportsdirect group generally from the outset of the negotiations. It is clear from the correspondence referred to earlier in this judgment that the issue of a full and final settlement being part of the overall agreement had been agreed in principle long before WCC had been identified as the appropriate company within the Sportsdirect group to be party to the Agreement. It is noteworthy that the claimants do not dispute this point in either their written openings or closings. As Mr St Quintin put it in the course of his oral closing submissions, "*… the only issue that arises in respect of that. Was it gratuitous or not? …*" – see T5/602/22-23. The final issue about which again there is no dispute is whether either the first or second defendants rejected the benefit of clause 2.4C. No one suggests they did so and it is obvious that they would not given the reason why from Sportdirect's perspective the Agreement was being entered into.

91. In light of these conclusions it is not necessary for me to consider the defendants' alternative case that in the circumstances there had been an express acceptance of the benefit of clause 2.4C on behalf of the first and second defendants. No question of revocation can arise because of the deemed acceptance when the Agreement was executed. Any issue concerning termination of the Agreement has ceased to be relevant given my conclusions as to when clause 2.4C took effect.

92. In my judgment the effect of all this is that both the first and second defendants are fully and directly entitled to the benefit of, and to enforce, the discharge and waiver contained within clause 2.4C. This is so because by Art. 6.523 of the Dutch Civil Code, "*... once a third person has accepted the stipulation, he is deemed to be a party to the contract"*. It follows that BV is no longer able to pursue its claim against the first and second defendants for infringement in relation to the 2013 Goods.

Claims Arising After 6 June 2014 – Factual background

93. These claims are concerned with what are called in these proceedings the "*Total Goods*" by which is meant Brand Goods that should have been ordered by WCC, imported by it into the EEA and then offered for sale to consumers via the USC outlets pursuant to the Agreement but which were imported in fact into the EEA by the first defendant ("SCRL"). The claimants allege that by importing the Brand Goods into the EEA and then dealing with them by sale or offering them for sale, the defendants have infringed the Marks ("Infringement Claims"). In addition, the claimants advance a claim based in alleged inducement of a breach of the Agreement against Republic. I expand on the nature of this claim further below. There is an issue as to whether and if so when BV knew that the orders were being placed by SCRL rather than WCC, which I turn to later in this judgment. It matters only in relation to the Infringement Claims.

94. The parties have treated the Total Goods as divided into two sub-categories. The first sub-category consisted of Brand Goods that arrived in the UK prior to 31 December 2014. This sub-category is referred to by the parties as "*Batch 1"*. The other sub-category is referred to by the parties as "*Batch 2"*. It consisted of Brand Goods that arrived in the UK after 31 December 2014.

95. It is common ground that SCRL purchased the Total Goods (using LCs open by it for the purpose) for importation into the EEA from BV's nominated suppliers and that they entered the UK in batches between 25 November 2014 and 9 April 2015. The defendants allege that the justification for this course was that the only company within the Sportsdirect group with the facility to open LCs was then SCRL. In my judgment this does not of itself justify what happened since it was open to SCRL to open LC's on behalf of WCC as part of an inter group arrangement. Further it is clear on the evidence and I find that Mr. Haddad would never have agreed to the structuring of the Agreement so as to permit SCRL to purchase the Brand Goods, such was his antipathy to Sportsdirect and having regard to its previous infringing activity. Such an arrangement was never at any stage proposed on behalf of Sportsdirect. Had it been, and had Mr Haddad been persuaded to agree to it, it is beyond argument that he would have insisted on SCRL being made a party to the Agreement.

96. The parties further divide Batch 1 into four sub-sub-categories consisting of :

(a) "*Early Sold Goods",* defined as Batch 1 Brand Goods sold to consumers from USC outlets controlled by WCC before 31 December 2014 at a time when either those goods were owned by SCRL or had been sold by it to WCC;

(b) *"Store Goods"*, defined as Batch 1 Brand Goods sold by SCRL to WCC on 31 December 2014 that were stocked in and offered for sale to consumers via the USC outlets controlled by WCC between 31 December 2014 and 13 January 2015,

(c) "*Administration Goods"*, defined as Batch 1 Brand Goods that were Store Goods until they were sold by WCC (In Administration) to Republic on 13 January 2015, and

(d) "*Remaining Goods"*, defined as Batch 1 Brand Goods that were never delivered to WCC controlled USC outlets.

97. It is common ground that all the Total Goods were purchased by SCRL. It is not in dispute that it did so as principal rather than as agent for WCC, although such an arrangement would be much more consistent with (i) the Agreement (ii) the pre-contractual understanding that purchases by WCC would be funded by LCs opened by another (unidentified) Sportsdirect company and (iii) the manner in which the business of the Sportsdirect group was conducted commercially. On 31 December 2014, SCRL sold all stock held in WCC's USC outlets to WCC. This sale included the Store Goods but no other sub or sub-sub category of the Total Goods. Mr. Nevitt maintains that this transaction was entered into in anticipation of WCC entering administration because the (proposed) administrator wanted to ensure that WCC owned all goods in its stores at the point when it entered administration. Whether or not this was so is immaterial to the issues I have to decide.

98. WCC entered administration on 13 January 2015. The Administrator sold the USC part of WCC's business to Republic as a going concern on the same day. The Administration Goods were sold to Republic as part of that transaction. The effect of this transaction was that the USC outlets owned by WCC were sold to Republic, which already owned all the USC stores other than those owned by WCC. The Administration Goods remained in the USC stores that they were in prior to the sale to Republic. The only practical change was to the ownership of the USC stores in

which the Administration Goods were located. It is common ground that all the other Total Goods were never owned by WCC and it is also not in dispute that some of the Remaining Goods were subsequently offered for sale and sold on the Sportsdirect web site.

Inducing Breach of Contract.

99. It is convenient to address this claim next because it depends in part on the true construction of the Agreement. The claimants' inducement of a breach of contract claim is advanced by reference to the Administration Goods. They allege that the sale by WCC (In Administration) to Republic on 13 January 2015 was in breach of clause 2.4B of the Agreement, that Republic induced the breach by offering to buy and buying the Administration Goods in the knowledge that such a sale would be a breach by WCC of the Agreement and with the intention of bringing about such a breach. Republic does not dispute the primary facts on which the claimants rely but maintains that nevertheless this claim should be dismissed because (a) on a true construction of clause 2.4B of the Agreement, the sale by WCC (In Administration) to Republic was not a breach of contract by WCC, (b) if it was a breach the claimants have not proved that Republic had the requisite intention that must be established before liability for the tort of inducement can arise and (c) in any event no damage has been or could be caused by the alleged breach relied upon.

The Ingredients of the Inducement Cause of Action

100. In order to succeed in a claim for damages for inducing a breach of contract, a claimant must prove:

i) A breach of contract for, as Lord Hoffmann observed in paragraph 44 of his Opinion in OBG v. Allan 2007] UKHL 21 [2008] 1 AC 1: "*one cannot be liable for inducing a breach unless there has been a breach*".

ii) That the breach was intentionally caused by the defendant; and

iii) That the claimant has been damaged by the breach of contract relied on. If the breach has been such as must in the ordinary course of business inflict damage upon the claimant, it is unnecessary for the claimant to prove particular damage in order to establish liability – see Clark & Lindsell on Torts, 22nd Ed., Para. 24-51 and the authorities collected at footnotes 274 and 275.

Proof of the requisite intention requires proof of knowledge on the part of the defendant that the conduct being induced will be a breach of contract. As Lord Hoffmann stated at paragraph 39 of his Opinion in OBG v. Allan "*It is not enough that you know that you are procuring an act which, as a matter of law or construction of the contract, is a breach. You must actually realize that it will have this effect. Nor does it matter that you ought reasonably to have done so*." The only qualification to this requirement is that proceeding recklessly, indifferent whether the act being procured is a breach or not will usually be sufficient since a conscious decision not to inquire into the existence of a fact is treated as equivalent to knowledge of that fact. However that knowledge is established, once it has been that will be sufficient subject only to the qualification that if the breach of contract is neither an end in itself nor a means to an end, but merely a foreseeable consequence, then the breach concerned cannot have been intended – see the opinion of Lord Hoffmann in OBG at paragraph 43.

Breach of Contract

101. The claimants allege that the sale of the Administration Goods by WCC (In Administration) to Republic constituted a breach of clause 2.4B of the Agreement, which provided that:

> " Licensee acknowledges that the Licensed Merchandise may only be sold directly to consumers at USC stores or via USC's internet site (and not via Sports Direct stores or internet sites). "

Republic denies that this is so. It maintains that the only effect of clause 2.4B of the Agreement is to require that the Brand Goods that are offered for resale to consumers be offered only in the USC outlets. It follows, so it is submitted, that it was open to the purchaser of Brand Goods pursuant to the Agreement to deal with them as was thought fit (including selling them to a third party wholesale) as long as they were offered for resale to consumers only at USC outlets. The claimants maintain that this is a mistaken reading of clause 2.4B, which if correct would entirely undermine the purpose of the Agreement and the true role of clause 2.4B within the Agreement, which was to ensure that Brand Goods would be sold only to consumers at USC shops and via the USC web site. They submit that if the clause is read in its context and as part of the Agreement read as a whole, then it becomes readily apparent that Brand Goods purchased pursuant to the Agreement can only be exploited by such a purchaser offering them for resale to consumers using the USC outlets and thus a sale by WCC to Republic (or any use of the goods other than offering them for sale to consumers at the USC shops and via the USC website) constituted a breach of the Agreement.

102. I accept the claimants' submissions in relation to this issue for the following reasons.

103. First, as will by now be clear, Mr Haddad was willing to enter into negotiations and countenance Brand Goods being sold in Sportsdirect outlets only if such sales were confined to retail sales from outlets operating under USC brand. I have already explained why he considered sales through any outlets other than the USC outlets to be damaging and why he considered that only sales through the USC outlets would benefit the standing of the Brand. It was not suggested in the course of the negotiations by Mr Nevitt or Mr Joseph that any dealing with the goods otherwise than by retail sale through the USC outlets was being contemplated by any person or individual on the Sportsdirect side of the transaction. Critically it was never suggested that in order to purchase goods using LCs it would be necessary for the purchaser to be SCRL. In truth, neither of the parties to the agreement contemplated anything other than the purchase of Brand Goods by WCC followed by WCC offering the goods so purchased for sale to consumers at the USC shops and via the USC website. Republic's case as to the effect of clause 2.4B would thus defeat the purpose for which clause 2.4B was inserted into the Agreement. Construing clause 2.4B as having the effect for which Republic now contends would be to give to it a meaning and effect that neither party could reasonably have ascribed to it in the circumstances that applied down to the date when the Agreement took effect and in my judgment would

contradict what both parties to the Agreement would reasonably have expected from the other, and certainly what BV would have expected from WCC.

104. Secondly, the language adopted by the parties when read as a whole with the rest of the Agreement makes clear that the Agreement did not permit what the defendant now alleges it permitted. Clause 2.1A provided that WCC was granted:

> " … an exclusive license to use the Licensed Trademarks during the Term in the Territory only in connection with the design, importation, distribution, advertisement, promotion, marketing, shipment, and sale of Licensed Merchandise, provided Licensor shall have the right to design, import, distribute, advertise, promote, market, and ship Licensed Merchandise within the Territory …"

The scope of this apparently wide ranging permission was then heavily qualified by clause 2.1C, which provided that WCC "*... agrees not to use, directly or indirectly, in any manner, the Licensed Trademarks except as specifically provided in this License Agreement ...*" The only express permission is that contained clause 2.4B, which provides that WCC " *... acknowledges that the Licensed Merchandise may only be sold directly to consumers at USC stores or via USC's internet site (and not via Sports Direct stores or internet sites).*". In my judgment the effect of these provisions when read together is that the wide scope of clause 2.1A is deprived of all effect other than as permitted by clause 2.1C and in consequence the only use permitted by clause 2.1A is that provided for by clause 2.4B, namely sale directly to consumers via the USC outlets. Adopting the construction for which Republic contends would involve ignoring clause 2.1C altogether. That is no more a permissible approach under Dutch law than it is under English law.

105. In those circumstances I reject Republic's submissions on the issue I am now considering and accept the claimant's submission that sale of Brand Goods by WCC to Republic constituted a breach of clause 2.4B of the Agreement.

Knowledge and Intention

106. Mr Nevitt's evidence in relation to the sale of the Administration Goods to Republic is set out in paragraphs 66-72 of his witness statement. In so far as is material, his evidence on this issue was:

> "As things turned out, an offer made by republic for WCC assets was the offer that the Administrator decided to accept … Republic entered into an agreement for the sale of a substantial part of WCC's business as a going concern on 13 January 201[5] (Administration Agreement). … This agreement covered those BHPC products that were physically in the USC stores owned by WCC …
>
> One way or another, by 13 January 2015, Sports Direct owned all the BHPC products that had been supplied under the … Agreement, either because they were supplied to [SCRL]

> directly as the purchaser of the product, or because Republic acquired them pursuant to the Administration Agreement.
>
> …
>
> By this time WCC had gone into administration and was no longer involved in running USC. I had a bunch of stock sitting in USC stories now all owned by Republic (following the purchase under the Administration Agreement) that I allowed to continue to be sold ion those stores … all that stock had been … fully paid for (both through the purchase price from the suppliers and the advance royalty that I knew that WCC had paid)
>
> …
>
> I understand that the allegation is now made that Sports Direct "induced WCC" to breach its contract with the claimants. I don't understand that allegation. Sports Direct didn't induce WCC to do anything at all and didn't understand that Sport Direct's actions would put WCC in breach when it was now in administration. Sports Direct simply took steps that it thought it was entitled to, to sell off bad stock that Sports Direct had in its possession. …"

In my judgment this statement demonstrates in a clear way the conclusion I have already reached – that the commercial executives employed within the Sports Direct group did not draw any distinction between any of the legal entities making up the group for commercial purposes. Mr Nevitt describes himself in his statement as being "*Global Head of Commercial*" at the second defendant. He describes this role as being "*... to run the supply and sales of the SD group"* and his role between 2013 – 2015 as being "*Head of Buying"*, which involved " *... managing the team that purchases all products for the SD group"*. Given his concern about the BHPC stock held at Republic and elsewhere in the Sport Direct group, it would appear he had a direct concern in sales strategy as well. The second defendant is the holding company for the Sports Direct group and it is clear that Mr Nevitt's responsibilities stretch and stretched across the whole group. In the section of his statement quoted above it is clear for example that he has ultimate responsibility for both Republic and SCRL. Indeed, at an earlier point in his statement, Mr Nevitt confirmed that he had direct responsibility for the activities of Republic and WCC (each of which in part was interested in and responsible for the USC brand) when he identified Mr Adam Barton as being "*Head of USC"* and as such " *... responsible for the buying team for USC on a day to day basis. Mr Barton reports to me and I have the final say on any decisions"*.

107. In his opening submissions on behalf of the defendants, Mr Saunders QC submitted that "*... the intention was identical to what actually occurred – i.e. that ownership in the Administration Goods would be transferred but that those goods would remain for sale to consumers in USC branded stores."*. As I have explained already, in my judgment the sale by WCC to Republic of the Administration Goods constituted a breach of clause 2.4B of the Agreement since that sale was not a sale " … *directly to*

consumers at USC stores or via USC's internet site …". Two questions arise: (a) did Mr Nevitt know that the sale to Republic by WCC would be a breach of the Agreement (or was he indifferent whether the act being procured is a breach or not) and (b) was the sale of the Administration Goods to Republic a means to an end.

108. There can be no doubt that Mr Nevitt was fully aware that BHPC stock was included in the sale of the USC business by WCC to Republic. That is so because at paragraph 65 of his statement Mr Nevitt states that prior to the administration of WCC commencing, SCRL had " *… sold all the stock (including BHPC products) that was held in the USC stores owned by WCC to WCC …"* and that " *… the reason for this sale was that the proposed administrator … had requested that [SCRL] sell the products to WCC so that the administrator wouldn't be left … with empty shops that would make the business harder to sell to a third party if necessary"*.

109. Mr Nevitt's oral evidence on this issue was as follows:

> "MR. ST. QUINTIN: You knew, Mr. Nevitt, did you not, that if WCC sold Beverly Hills goods to another business, that would be a breach of this clause?
>
> A. No, I do not think I would have fully understood that, no. Through the administration process or prior to it or post it?
>
> Q. Ever?
>
> A. I would not have understood that, no.
>
> Q. You say you would have taken advice about any clause. If you had taken advice about this clause it would have been explained to you, would it not?
>
> A. It would have been explained, and it would have been explained not to sell the product on Sports Direct, and when I sought advice, after the administration, I was given advice that at that point I could sell Sports Direct stock that was in the warehouse on the Sports Direct website after the administration."

It is submitted on behalf of the defendants that this amounts to evidence that Mr Nevitt understood that WCC was not able to sell BHPC products to consumers otherwise that through WCC outlets but not to have understood that the sale of BHPC product at a wholesale level was prohibited. It is submitted that this evidence means that Republic could not have the requisite intention when it entered into what Mr Nevitt calls the Administration Agreement. I reject this evidence for the following reasons.

110. First, earlier in his oral evidence, Mr Nevitt accepted that:

> "Q. … Presumably, you reviewed the agreement before you signed it, did you not?

> A. I would have reviewed the commercial terms of it that would have been outlined to me from our legal representation. I would not have actually physically read the whole agreement. That would be wrong to say I did because I did not.

However, a little later in his oral evidence, Mr Nevitt said:

> "Q. … so you would have received a summary of the terms of this agreement?
>
> A. Yes because, obviously, I am not of a legal mind but I would have got a commercial summary of it."

It is inherently improbable that if Mr Nevitt had been supplied with a summary of the effect of the main provisions within the Agreement, that would not have included a summary of the effect of what were the three critical clauses within it namely clauses 2.1A, 2.1C and 2.4B. This is so because it is these three clauses when read together that controlled what WCC could and could not do with the Brand Goods it was permitted by the Agreement to purchase and thus what commercial use could be made of the Brand Goods that WCC purchased. It was critical therefore for Mr Nevitt to understand what was and was not permitted by these provisions because it was only if he fully understood the scope of these provisions that he could sign or authorise or advise the authorisation of the signature of the Agreement. I find that he must have done one or other of these things since it was he who conducted the commercial negotiations leading to the Agreement on behalf of WCC. It was also critical for him to understand these points if he was to manage this element of the defendants' business following the signature of the Agreement.

111. Although Mr Nevitt asserted in his oral evidence quoted above that he " … *would not have understood …*" the effect of these provisions to be as I have found them to be, I was unconvinced by this evidence. Mr Nevitt is a very senior and experienced Sports Direct executive who in that capacity well understood trade mark licensing – as he accepted in this exchange during his cross examination:

> "Q. … You obviously, working with Sports Direct with its branding business, understand what an an exclusive licence is; do you not?
>
> A. Yes."

It is inherently probable that someone in Mr Nevitt's position, would have read or understood these provisions as meaning what I have concluded they mean. It is inherently improbable that he would not for all the reasons set out in the summary of the genesis and progress of the negotiations leading to the Agreement set out above. Had he not understood the position to have been as I have found it to be, then he would have asserted it in unqualified terms and would have explained in clear terms the basis of his understanding. This point was fundamental.

112. Although not explored in the evidence at trial, it is clear that WCC faced real commercial difficulties by the end of 2013. Although Mr Nevitt implied in his statement that the decision to place WCC in administration and then for Republic to

acquire most if not all WCC's business from the administrator were independent decisions, I think that is unlikely to be so. Mr Nevitt says in his statement that WCC was placed in administration on the same day as Republic acquired most or all of its business under the Administration Agreement and it is clear also that there were detailed discussions between Sportsdirect's management and the proposed administrator well before WCC was placed in administration as is apparent from the summary of those discussions in paragraph 65 of Mr Nevitt's statement. All this is consistent with the administration being what is sometimes called a "pre-pack" administration by which a company is placed in administration in contemplation of its business being then sold on (free of its debts) to the company's former shareholders. This allegation first surfaced expressly only in the claimants' closing submissions and only then by reference to some newspaper reports. Normally, I would have left such material out of account but (a) it was not denied during the defendants' oral closing submissions, (b) the press report is of a statement by the administrator to a parliamentary committee and thus is inherently likely to be accurate and (c) what is reported is entirely consistent with the timings referred to earlier. I am satisfied therefore that the administration was a pre-pack arrangement and that the arrangements for transferring the Administration Goods to WCC ahead of its administration was for the purpose of ensuring the proposed pre pack arrangements worked. This makes it more likely that these internal arrangements proceeded without any regard to the restrictions imposed by the Agreement.

113. All this is also consistent with what the claimants describe in their closing submissions as a "*... propensity to act in breach of the Agreement and generally to run rough-shod over other people's rights ...*" as and when it is perceived to be in the best commercial interests of the Sportsdirect group or one of its constituent members. Although Mr Nevitt said otherwise, I am satisfied that there came a time when he decided that for no doubt good commercial reasons what remained of the Total Goods would be sold through the wider Sportsdirect network. This is the clear implication of the emails summarised at paragraph 160.2-160.6 of the claimants' written closing submissions. Mr Nevitt was forced to acknowledge that this was so when he was cross examined about this email traffic:

> "There isn't way of reconciling your answer you have just given that you wouldn't have permitted the goods to be cleared in Sports Direct with Mr. Harwood's understanding of Mr. Barton having gone through his e-mail with you that morning, is there?
>
> A. Not that I can see in here, no.
>
> Q. Mr. Harwood finishes his e-mail by saying: "This will obviously be one to keep fairly low key until it is all resolved." What do you think he meant by that?
>
> A. I have no idea. You would have to ask him.
>
> Q. We cannot ask Mr. Harwood, can we, Mr. Nevitt, because he is not giving evidence in these proceedings?
>
> A. I do not know what he would have meant by that. All I know is that I told everybody that these were the people at USC.

> They were running the business of USC. I was not directly involved in the day-to-day running of the business. If they came for advice, I would have said no.
>
> Q. You accept that it was the usual practice to sell stock in Sports Direct when it was available for sale, do you not?
>
> A. I accept that Sports Direct has a bigger web business than that of USC, and if there is a problem with stock liability and the product not selling through it is an option to sell stock, yes.
>
> Q. The reference to keeping things low key is an instruction to avoid disclosing the fact that you are going to move the stock into Sports Direct until it has all been dealt with, isn't it?
>
> A. No."

In my judgment, Mr Nevitt's assertion that he was not involved with the day to day running of the USC business is beside the point given his primacy in relation to decision making concerning the USC business admitted by him in his statement, the relevant part of which is set out in paragraph 106 above. What Mr Nevitt says concerning his role is entirely consistent with the emails, which show more junior managerial employees deferring to him or acting on his views. The truthfulness of his final answer is at odds with what is set out in the emails. The commercial imperative was that identified by Mr Nevitt in paragraph 71 of his statement. Faced with the choice of standing by the terms of the Agreement or attempting to sell the Band Goods for whatever price could be obtained in order to reduce or illuminate losses, Mr Nevitt ultimately chose the latter as is apparent from the email exchanges.

114. In those circumstances, I conclude that on the balance of probabilities Republic by Mr Nevitt was fully aware of the restrictions that the Agreement imposed in relation to the Administration Goods at the time when Republic purchased WCC's USC business but was content to proceed in any event because to do so was perceived as being in the best interests of the Sportsdirect group. Whilst I accept that breach of the Agreement was not an end in itself – that has never been the claimants' case - in my judgment it was a means to an end – the end being the successful completion of a prepack administration of WCC by which its USC business was successfully transferred to Republic, free of the debt and other fetters on WCC's ability to trade successfully.

Damage

115. The defendants submit that the claimants have failed to prove any loss and therefore the claim must fail. It is common ground that to succeed the claimants or at least BV must prove that the breach by WCC is one that must in the ordinary course of business have inflicted damage on it. The defendants submit that has not been proved nor could be because "*… the goods remained for sale in the USC shops …"* and the royalties otherwise payable in respect of all the Total Goods had been paid in advance by WCC. This is not an accurate summary of the contractual position, it ignores the fact that WCC and Republic are separate legal entities and is reflective of the habit of treating each defendant as part of an invisible whole when in fact the Sportsdirect

group is made up of a number of different companies, each with separate legal personalities but each of which happen to be wholly owned either directly or indirectly by the second defendant.

116. In my judgment, BV passes the relatively low threshold for the proof of damage required at this stage of the enquiry. My reasons for reaching that conclusion are as follows. Firstly, sale of the Administration Goods in breach of contract by WCC to Republic deprived BV of the opportunity of seeking a royalty in respect of that sale. No royalties were due under the Agreement in respect of sales other than sales permitted by clause 2.4B.

117. Secondly, the royalty obligation imposed by clause 4.1 (and the administrative arrangements concerning royalty payments and interest on late payments contained in clause 5) could not be enforced by BV against Republic as it could have been against WCC. Clause 4.1 of the Agreement provides that:

> "Licensee agrees to purchase Licensed Merchandise to the value of no less than £800,000 (pounds sterling) and shall pay Royalties to Licensor equal to 10% of Net Sales of Licensed Merchandise. Licensee shall pay $250,000 to Licensor within 7 days of the date of this agreement by way of an advance on the Royalties payable."

Republic is not the Licensee and is not a party to the Agreement. Sale of the Administration Goods to Republic deprived BV of the chance of negotiating a royalty in respect of the Administration Goods sold by Republic trading as USC. Whilst it is true to say that US$250,000 was paid by WCC by way of advance Royalties, it does not necessarily follow that in the course of a commercial negotiation between BV, WCC and Republic, BV would have agreed to any part of this sum being set off by Republic against any sum that might become due by way of royalties following the sale of the Administration Goods at USC outlets after Republic had taken over all the outlets previously operated by WCC or would have done so without taking account of any royalty payable on the sale by WCC to Republic and without apportioning the US$250,000 between the Administration Goods and the rest of the Total Goods.

118. Thirdly, US$250,000 represents the total sum due by way of advance royalty on all the Total Goods. The Administration Goods are a small portion of that. Thus at most the portion of the advance attributable to the Administration Goods is likely to depend on the proportion that the Administration Goods bears to the Total Goods. Without knowing this figure it is not possible to apportion the advance royalty as between the Administration Goods and the remainder of the Total Goods. Even assuming that BV would have agreed to the same royalty becoming payable by Republic as had been payable by WCC under the Agreement (something BV does not accept), what would have been payable for the Administration Goods due depends on the mark up at which the Administration Goods were in the event sold for. Again, that is not information that is available to me. That is evidence which is in the hands of the defendants. It is only when the evidence necessary for the conduct of an enquiry as to damages is to hand that this will become apparent. All that it is possible to say at this stage is that it is the defendants who assert that no loss has been suffered. The information to make

good that assertion is all in their hands but it has not been produced as it could have been with relative ease.

119. In those circumstances, the claimants have satisfied me that the breach by WCC is one that must in the ordinary course of business have inflicted damage on BV.

The Infringement Claims

120. This element of the claim is concerned with an allegation by the claimants of infringement in relation to the Total Goods imported into the European Economic Area ("EEA") after the Agreement was signed in June 2014. As I explained earlier, the Total Goods are the goods referred to in the Agreement as "*Licensed Merchandise*" that under the Agreement should have been ordered by WCC, imported by it into the EEA and then offered for sale to consumers via the USC outlets but which in fact were imported into the EEA by SCRL between 25 November 2014 and 9 April 2015. The claimants allege that SCRL and the second defendant were guilty of infringement by importing the Brand Goods into the EEA and then offering the Brand Goods so imported for sale otherwise than was permitted by the Agreement and in particular by offering them for sale on a discounted basis via outlets other than the USC shops and websites. The defendants allege that the justification for this course was that the only company within the Sportsdirect group with the facility to open LCs was then SCRL. This was not in fact a justification at all because (i) purchase by SCRL was not permitted under the terms of the Agreement (ii) WCC was exclusively permitted to purchase the goods concerned under the terms of the Agreement but was required to do so using LCs, (iii) the requirement to purchase using LCs did not require or permit purchase by anyone other than WCC but merely required that either WCC open LCs or someone else do so on its behalf and (iv) if someone else opened LCs on behalf of WCC, the terms on which it did so was a matter for agreement between that entity and WCC. There is no dispute between the parties that subject to the specific defences which I turn to in detail below, the acts carried out by the defendants are acts of infringement.

121. The defendants rely on all the relevant provisions of the Trade Marks Act 1994 ("TMA") and the European Union Trade Marks Regulation ("EUTMR") relied on by BV being qualified by the giving of consent by the proprietor of the marks concerned (which they maintain was either expressly or impliedly given) – see TMA, s.9(1) and EUTMR, Art.9(2) – and also on an assertion of "*exhaustion*" which is advanced by reference to TMA, s.12, which provides that:

> "(1) A registered 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.
>
> (2) 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)"

and EUTMR, Art.15, which provides that:

> "1. An EU trade mark shall not entitle the proprietor to prohibit its use 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.
>
> 2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market."

It is common ground that importation into the EEA by the proprietor does not trigger TMA, s.12 or EUTMR, Art.15. A sale by the proprietor to a third party for importation into, or within, the EEA does because such a sale allows the proprietor to realise the economic value of his trade mark – see Peak Holding AB v. Axolin-Elinor AB [2005] Ch 261 at paragraphs 40-43. Any contractual restriction on resale contained in the contract of sale between the proprietor and purchaser is applicable only as between the parties to the contract of sale and does not preclude exhaustion with the result that a proprietor faced with dealings in breach of such a restriction is limited to its contractual remedies – see Peak Holding AB v. Axolin-Elinor AB (ante) at paragraphs 53-56. The defendants submit by reference to these principles that SCRL acquired title to the goods on delivery at the port of shipment (the sale being on FOB terms and both the purchase price and the advance of royalty having been paid by then) and the Total Goods were placed on the market in the EEA at the latest when they cleared UK customs. However, as the claimants submit and the defendants accept, that is only so if the sale to SCRL was with the consent of BV.

122. In relation to consent, it is common ground between the parties that the same principles apply whether one is considering consent for the purposes of TMA, s.9(1) and EUTMR, Art.9(2) or of TMA, s.12 and EUTMR, Art.15. What constitutes consent for these purposes has been considered in a number of CJEU judgments. The leading decision in this area is Zino Davidoff SA v. A & G Imports Limited [2002] Ch109 ("Davidoff"). That case was concerned with parallel importing into the EEA of goods sold by the trade mark proprietors into other markets. It is submitted by the defendants that this renders Davidoff distinguishable from later cases. The claimants do not accept that this factor renders Davidoff distinguishable or that the subsequent authorities on this topic deviate from the principles identified by the Court in Davidoff. Having identified the existence of consent as being the decisive issue (paragraph 41) the CJEU then concluded that it was necessary for there to be a "... *uniform interpretation of the concept of "consent" ...*" in order to ensure the same protection was provided under the legal systems of all member states (paragraphs 42-43). Having noted the serious effect of consent being that it extinguished "*... the exclusive rights of the proprietors of the trademarks ...*" the Court then concluded at paragraphs 45-46 that:

> "… consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated.
>
> Such intention will normally be gathered from an express statement of consent. Nevertheless, it is conceivable that consent may, in some cases, be inferred from facts and

> circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his rights" "

123. The key points that emerge from this formulation is that consent will normally be found only where there is an express statement of consent by the proprietor but, exceptionally, consent may be inferred from facts that unequivocally demonstrate an intention to renounce the rights to which the proprietor would otherwise be entitled by reason of being the proprietor of a registered mark. I suggested to Mr Saunders in the course of his closing submissions that this formulation meant that the inference must be the only one possible from the facts relied on because such a conclusion appeared to follow from the requirement that the facts must demonstrate "*unequivocally"* that the proprietor has renounced the rights to which he would otherwise be entitled and because it is clear that the Court regarded inferred consent to exceptional. Mr Saunders did not accept that proposition as following from the language used but in any event he submitted the facts of Davidoff were different from the facts of this case. He submitted that this much is apparent when the decision of the CJEU in Copad SA v. Christian Dior Couture SA [2009] ETMR 683 ("Copad") is considered.

124. Copad concerned a claim by Christian Dior against one of its licensees and a third party to whom it was alleged goods manufactured by Christian Dior had been sold by its licensee in breach of the terms of its licence. The issue that the Court was concerned with was whether Christian Dior's rights were exhausted by reason of its licensee having sold the goods into the relevant market. For present purposes, it is the second question the Court had to consider that is relevant – that is whether a licensee who puts goods bearing a trade mark on the market in the EEA in contravention of the terms of its licence does so without the consent of the licensor. The court expressly approved the formulation in Davidoff – see paragraph 42 of the Judgment - but concluded that "*... where a licensee puts goods bearing the mark on the market he must as a rule be considered to be doing so with the consent of the proprietor of the trade mark for the purposes of ..."* what is now EUTMR, Art.15. This led Mr Saunders to submit that:

> "The Copad case was, essentially, where goods were being bought by -- there was a license agreement in place, but they were bought by the wrong person. The answer, in Copad, is you go and sue your licensee …"

although he was driven to accept that " *We are in a slightly different situation to that in Copad, but what one can draw out of the principles in Copad is that in our submission we are on the right side of the line*" – see T6/732-3. The essential point made by the defendants by reference to Copad is that SCRL purchased the goods from the vendors based in India and Hong Kong. Each vendor was licenced by BV to manufacture and sell the goods. It may be that they should have sold the goods to WCC not SCRL. However by selling the goods to SCRL, the vendors put the goods on the market in the EEA and following Copad must be " … *considered to be doing so with the consent of the proprietor of the trade mark ..."*.

125. Mr St Quintin summarised these submissions at paragraph 72 of his written closing submissions and responded to them in paragraph 73 by describing them as "*staggering and wrong"*. In my judgment Copad does not support the submissions made by Mr Saunders for the following reasons. First, Copad did not in any way qualify Davidoff. To the contrary, the Court in Copad cited and adopted it – see paragraph 42 of the judgment. Secondly, Copad was concerned with a question that simply does not arise in the circumstances of this case. As I have explained earlier, the question that the Court had to decide in Copad concerned the activities of a licensee putting goods on the market in the EEA. That is the distinction between Copad and a case such as Davidoff, which concerned parallel importing of goods acquired from a licensee trading outside the EEA. This distinction is fundamental – see by way of example Makro v. Diesel SpA [2010] ETMR 2 at paragraph 30 (" ... *for the purposes of ... extinction ... what is important is only the fact that the goods in question have been marketed in the EEA ..."*), paragraph 31 (" ... *marketing outside the EEA does not have any exhaustive effect ..."*) and paragraph 32 ("... *it is essential that the proprietor can control the first placing of those goods on the market in the EEA, irrespective of the fact that they may have first been marketed outside that area"*). As Lord Sumption JSC said in Oracle v. M-Tech [2012] 1 WLR 2026 at paragraph 4: " ... *the combined effect of Articles 5 and 7(1) of the Directive is to confer on the trade mark proprietor the exclusive right to control the first marketing in the EEA of the goods bearing his trade mark even if they are genuine goods which have previously been put on the market by him or with his consent outside the EEA"*.

126. Here it is common ground that the first acts within the EEA were conducted by SCRL. It was it that imported the goods into the UK because it purchased the goods in India and Hong Kong FOB. The sale obligations of the vendors were complete with the delivery of the goods to the port of shipment for loading on board the nominated vessel. It follows that prior to importation by SCRL, the goods had not been marketed in the EEA. SCRL is not and never has been a licensee of the Marks and has no economic link to either claimant. The position may well have been different if the Total Goods had been purchased by WCC or by SCRL as agent for WCC and then sold on to SCRL in breach of the Agreement. However neither of these suggestions has been made.

127. Finally (a) the onus of proof rests on the defendants to establish consent – see Mastercigars Direct limited v. Hunters & Frankau Limited [2007] RPC 565 *per* Jacob LJ at paragraph 17 and (b) consent by someone who is "... *legally or economically linked ..."* to the proprietor is not sufficient. Consent must be given by the party who has the right to control the use of the Marks – see Mastercigars (ante) *per* Jacob LJ at paragraph 30.

128. In those circumstances, I accept the submission made on behalf of the claimants that the question whether or not the defendants are entitled to succeed in a TMA, s.12 or EUTMR, Art.15 defence depends on them proving that the Total Goods were put on the market in the EEA using the Marks with the consent of the claimants. I further accept that this question is to be answered applying the principles identified in Davidoff not least because it concerns the importation of goods acquired from a licensee trading outside the EEA. Furthermore, I conclude that my provisional view set out in paragraph 122 above that where inferential consent is asserted the inference must be the only one possible from the facts relied on is correct. This it seems to me

follows for the reasons identified in that paragraph and from the judgment of Lord Sumption in Oracle (ante) where he said of Davidoff that it:

> "… underlined … that the consent of the trade mark proprietor had to be such as to amount to an unequivocal renunciation of the right. It could therefore rarely be implied, and never from the mere fact of his having placed the goods on the market outside the EEA and/or his silence on the question whether they had been lawfully placed in the market within the EEA. "

It is also the effect of Mastercigars (ante) *per* Jacob LJ at paragraph 19.

129. Against that background I now turn to the defendants' factual case on this issue. They contend that there was either express consent by BV or implied consent by the claimants and/or by their agent QDS and/or by the licensed suppliers in India and Hong Kong. I am not able to accept any of these submissions. My reasons for reaching that conclusion are as follows.

130. It is necessary first to identify the party with the right to control the Marks. That can be no real dispute about this but in any event I find that *de jure* control of the Marks rested with BV and *de facto* control rested exclusively with Mr Haddad. My reasons for reaching those conclusions are set out earlier in this judgment and I do not need to repeat them. That being so the focus of the enquiry concerning consent must be on the knowledge and acts primarily of Mr Haddad. I say this because (a) consent must be given by the party who has the right to control the marks, (b) it had been made clear by Mr Haddad from an early stage in the negotiations leading to the Agreement in his email to Mr. Joseph dated 29 May 2014 that "*... The licence function and the production functions are separate"* and (c) QDS, Ms Willson and the vendors were all exclusively concerned with production not licensing.

131. The negotiations leading to the Agreement were all carried out on behalf of BV exclusively by Mr Haddad. BV did not at any stage act by anyone other than Mr Haddad in relation to the negotiations or on any other issues concerning licensing and it is clear from the evidence as a whole that Mr Haddad was the decision maker in relation to who was granted licences by BV and on what terms. One short piece of evidence reflective of this was this answer from Mr Haddad in the course of his cross examination:

> "Control over who uses the brand from a legal perspective is in my hands. The implementation of control policies are in the hand of designated managers and agents. Very two different subjects. Shall I explain it further, your Lordship? Is that clear enough?"

I am not able to accept Mr Saunders' suggestion in paragraph 94 of his closing submissions that Mr Haddad's evidence that it was only he who could give consent to the use of the Marks should be rejected. None of the facts and matters set out in that paragraph either separately or together support that contention, particularly once the distinction between licensing and production functions is understood and once it is understood that QDS, Ms Willson and the manufacturers in India and Hong Kong were concerned exclusively with production not licensing. My reasons for concluding that the role of QDS, Ms Willson and the manufacturers was so confined are set out earlier in this judgment. There is no evidence whatsoever that shows Mr Haddad to have known that in fact the Brand Goods that should have been purchased by WCC were in fact being purchased by SCRL.

132. Mr Saunders submitted that Mr Haddad personally understood that the goods would be purchased and imported by a company other than WCC from a date prior to the execution of the Agreement. I reject that submission as being entirely contrary to the evidence. I have set out the correspondence above. I need not repeat it here. The effect of this material is that it was understood that LCs would be opened by another company within the Sportsdirect group. It was not agreed or understood that the goods would be purchased by a company other than the company that traded as USC. Mr Joseph did not make such a suggestion at any stage. Had the understanding been that some other company would purchase the goods then that other company would have become a party to the Agreement either in substitution for or additionally to WCC. Mr Saunders attempted to obtain an admission from Mr Haddad in the course of his cross examination that he personally understood that the goods would be purchased and imparted by a company other than WCC. Mr Haddad unequivocally rejected that suggestion:

> “MR. SAUNDERS: You go on in this e-mail, just in the next paragraph, to say: "Any arrangement on the immediate and standard ... (reads to the words) ... just will not work." Then you go on to say: "The contract must be signed. The LC is opened to our designated manufacturers immediately. Delivery is scheduled from receipt of the Sports Direct LCs." Do you see that?
>
> 2A. Yes. Again, it is very clear that I was treating Sports Direct here not as a legal entity but as a financing party, as a senior partner to USC.
>
> Q. You are referring ----
>
> A. I was told that USC was a division of Sports Direct. Am I correct?
>
> Q. What you are referring there to is the Sports Direct group, presumably, Mr. Haddad?
>
> A. Correct. There you go. So, whether or not me or my personnel or my management refer Sports Direct or USC -- again, we are merchants. We are not legal tacticians.
>
> Q. So, what you are envisaging is that letters of credit will come from the Sports Direct group and the goods will be purchased by the Sports Direct group?
>
> A. Sports Direct financing entity, yes. Financing entity to be clear.

> Q. Then they were to be sold in USC stores, and that was your focus, as we have seen?
>
> A. Did USC or West Coast Capital have the ability to finance the business? That is the real question here. I really do not care as a merchant. I signed a deal to have things done at USC. I expressly forbid anything getting into Sports Direct. The party to the agreement was USC, West Coast capital. That was my concern, brand building with the right retail chain."

I accept this evidence because it is consistent with the tenor of the email correspondence between Mr Joseph and Mr Haddad that passed prior to the signature of the Agreement. Mr Haddad was emphatically not agreeing to a sale other than to WCC or recognising that in fact the goods the subject of the Agreement would be purchased by a company other than WCC. All that he was told and accepted was that the LCs that WCC was required to provide to the suppliers would be opened by a company within the Sportsdirect group other than WCC. As he put it, whether WCC paid for the goods itself or they were paid for by someone else on its behalf did not matter.

133. I turn now to the role played by QDS. Although Mr Saunders submitted that I should reject the evidence of Mr Haddad that QDS is not and never has been able to give consent, I am unable to accept that submission. There is nothing in the documentation that is available in this case and nothing in the background facts that supports the suggestion that QDS had any role to play in licencing as opposed to facilitating the production and delivery of the goods. Ms Willson's evidence was consistent with that being the position. Having listened to the whole of Mr Haddad's evidence, and the manner in which it was expressed I consider it is inherently improbable that Mr Haddad would have permitted any other arrangement but one which left him with exclusive *de facto* control of the licensing function.

134. I accept that the LCs were consistent with SCRL being the purchaser of the goods but that is not the only written material that is relevant. As far as BV and Mr Haddad were concerned "USC" and WCC were one and the same. Mr St Quintin set out in his written submissions a number of communications between BV personnel and WCC personnel – see written opening submissions, paragraph 132 and closing written submissions, paragraph 93. It is not necessary that I set them all out at length in the judgment. Some of them are emails that I have referred to already. The point is that when this material is read together with the LCs and POs then the picture is a much more equivocal and confused one than the defendants suggest, particularly when it is remembered that all parties were aware that the LCs would be provided by a Sportsdirect company other than WCC.

135. I accept that QDS was BV's agent. However that of itself does not assist. As I have said, QDS's role was to act as a facilitation agent. There is no evidence that it had actual authority to grant or vary the terms of trade mark licences on behalf of BV or provide any relevant consent and I find that it had no such authority. Ostensible authority depends upon holding out by the principal. There is no evidence of any holding out by BV or Mr Haddad of QDS as having any authority in to grant or vary the terms of trade mark licences on behalf of BV or provide any relevant consent.

None of the facts or matters referred to by Mr Saunders in paragraphs 96-100 of his written closing submissions either actually or inferentially establish that the contrary was the case.

136. In these circumstances it is difficult to see how the failure by QDS to object to the form of the orders placed for goods or the terms of the LCs by which purchases were funded could constitute unequivocal renunciation of BV's rights in the Marks. Not merely is the absence of any evidence of authority, actual or ostensible, fatal but silence is not enough to constitute consent in any event. It is not suggested and I find that QDS did not at any stage expressly consent to the substitution of SCRL for WCC as purchaser of the Total Goods or any part of them.

137. In relation to the suppliers, Mr Haddad's evidence is that the suppliers do not and never had authority to give consent. I accept that evidence because it is inherently improbable that the contrary would be the case in the circumstances and because there is no evidence that they had such authority whether it be actual or ostensible. Even if that is wrong, I do not accept that consent could be inferred from the fact that they accepted payment under the LCs opened by SCRL. As I have indicated a number of times already, the understanding of BV and Mr Haddad was that LCs would be opened by another company within the Sportsdirect group to finance the purchase of Licenced Merchandise as defined in the Agreement by WCC trading as USC. There is no evidence that suggests anyone thought that the LCs and other supporting documentation was anything other than giving effect to the Agreement and this arrangement and this is particularly so when it is remembered that USC as far as BV and Mr Haddad were concerned meant WCC. Supplying the Licenced Merchandise paid for by the LCs cannot be viewed other than in that context. In that context, supplying Licenced Merchandise does not unequivocally demonstrate that BV has renounced an intention to enforce its exclusive rights.

138. Ms Willson's role in relation to the supply of Licenced Merchandise by Runway was similar to that of QDS. She had neither actual nor ostensible authority to grant or vary the terms of licences or consent to the putting of Brand Goods on the market in the EEA under the Marks. Aside from the design work that she did for BV, her role in relation to Runway was entirely concerned with production issues. It was in that context that she was copied into POs and LCs. Aside from the absence of authority, I do not accept that consent could be inferred from the fact that Ms Willson knew of the terms of POs and LCs for the reasons set out above in relation to QDS and the Indian based suppliers. That is all the more the case in relation to Ms Willson whose knowledge of how the Sportsdirect group was organised and function was at best incomplete. As she put it in the course of her oral evidence:

> "You were also copied in on that e-mail, so presumably you were also aware, through monitoring it, that the purchaser was going to be Sports Direct?
>
> A. Correct.
>
> Q. You do not then make any complaint in this e-mail chain, do you, about Sports Direct being the purchaser?

> A. Sir, I was not aware of exactly WCC and Sports Direct. Everything was referred to as sort of the same. It would not have been anything that would have affected me directly.
>
> Q. From your perspective, everything was treated as if it was part of the group?
>
> A. One and the same."

Ms Willson had previously been asked about the email referred to earlier in this judgment which required that she be copied with all POs and LCs relevant to orders placed with Runway.

> "Q … Would it be fair to say you were the point person for dealing with Runway?
>
> A. Correct.
>
> Q. In effect, you were standing in Seatoman's role but ----
>
> A. On the outerwear, correct.
>
> Q. Your role as the point person, presumably included approving sales, did it?
>
> A. Approving sales?
>
> Q. Approving sales. You would have been kept copied in on all of the sales documentation, the letters of credit and so on, would you?
>
> A. No, I would not. It would have gone directly from USC to Runway.
>
> Q. I see. If you just look immediately below that paragraph, the next line is: "This communication includes, but is not limited to, all POs, LCs, terms of engagement", et cetera. POs is purchase orders, presumably?
>
> A. Correct.
>
> Q. LCs are letters of credit?
>
> A. Correct.
>
> Q. Terms of engagement are contractual terms, are they?
>
> A. Correct.
>
> Q. All of that material you would have received in your role with Runway. That is right, is it not?

> A. It would have come through to me, but in this case, they most likely sent it directly to the agent, because Runway, they were very on top of things. There was lots of mails, they would chase you every day, "We need an LC, we need an LC". That would go back and forth between the agent and USC, or between Runway Global and USC.
>
> Q. The LCs came from Sports Direct, did they not?
>
> A. I am not sure, sir.
>
> Q. Is your evidence you never looked at the LCs?
>
> A. I do not usually get involved in financials.
>
> Q. What about the purchase orders? Did you look at those?
>
> A. I do not usually see purchase orders. I would have been overseeing them to make sure the garment was the right garment that they wanted and any changes that needed to be made.
>
> Q. It is your evidence that you were to be copied in on things but you did not review them?
>
> A. I would not have been sent LCs, even though it says that I should be copied on that, but LCs would not have involved me. I had no need to see an LC."

I accept that evidence. Given (a) the degree to which Ms Willson was concerned with reviewing POs and LCs and the purpose of her review (progressing orders placed), (b) her state of knowledge concerning the structure of the Sportsdirect group, (c) the context in which orders were being placed with and accepted by Runway being the Agreement with WCC, (d) that WCC and USC were synonymous as far as the claimants were concerned and (e) the arrangement or understanding that had been reached prior to execution of the Agreement to the effect that LCs would be provided for WCC by another Sportsdirect company, it is impossible to conclude that the absence of objection from Ms Willson as to the terms of the POs and/or LCs unequivocally demonstrate that BV has renounced an intention to enforce its exclusive rights.

139. In those circumstances I reject the defendants' defence based on <u>TMA, s.12</u> or <u>EUTMR, Art.15</u>. The only licence that BV granted was that contained in the Agreement. That was a licence that was personal and exclusive to WCC. Thus importation and subsequent dealing with the goods by an entity other than WCC infringed BV's interest in the Marks contrary to <u>TMA, ss10(1)</u> and/or <u>(2)</u> and <u>EUTMR Arts. 9(2)(a)</u> and/or <u>(b)</u>. In light of these conclusions it is not necessary for me to consider whether the claimants are entitled to rely on <u>TMA, s.12(2)</u> and <u>EUTMR, Art. 15(2)</u>. That issue would have been relevant only had I concluded that consent had been established.

140. An issue remains concerning infringement under TMA, s.10(3) and EUTMR, Art. 9(2)(c). This depends on whether the UK Mark had at the relevant time a reputation in the UK and whether the EU Mark had at the relevant time a reputation in the EU. In light of the conclusions I have so far reached this issue too strikes me as academic. For that reason I set out my conclusions on this issue as shortly as I can below.

141. Before turning to the detail, I record that certain limited admissions are made by the defendants. In relation to the EU Mark, as Mr Saunders put it in his oral closing submissions:

> "We have admitted that the CTM has a reputation for clothing in Italy. We have not made any admission as to the nature of the reputation, in fact they invited us to make an admission that it had the allure of a prestigious image. We are not making that admission. What we accept is that this threshold question; have they done it, have they got there in Italy in terms of when it is known by a significant number of the public concerned? The answer is yes, so we admit that for the CTM in Italy. We do not make any admission in respect of the UK trademark."

It was submitted by the claimants that the effect of this admission is that to satisfy the requirement that the EU Mark "*... has a reputation in the Union ...*" within the meaning of EUTMR, Art. 9(2)(c). My understanding of Mr Saunders oral submissions is that he conceded that to be so – as he put it "*They say it is a unitary mark, Italy is a substantial part, so therefore they can be treated as having got through the hurdle*".

142. The claimants maintain that the UK Mark also had a reputation in the UK. The defendants dispute that to be so. The issue I am concerned with is whether the UK Mark had a reputation in the UK in the period 2013-2015. The need for use of the Mark in relation to goods similar or identical to those for which the Mark is registered is not a material consideration in relation to alleged infringement under TMA, s.10(3) and EUTMR, Art. 9(2)(c).

143. The claimants' own records suggest that there were no sales of menswear into the UK in any period after 2012. However, the defendants admit genuine use of the UK Mark (as well as the EU Mark) in relation to a wide selection of men's clothing in the period between November alternatively December 2010 and early November 2015. In addition, material quantities of underwear and luggage were sold into the UK during the relevant period and currently. Although there was a substantial drop in underwear and luggage sales by value in 2015 and 2016 over what had been maintained in previous years that is immaterial for present purposes. The defendants challenge this material on the basis that it is contained in a document prepared by the claimants in circumstances where the documents containing the information on which the document is based has not been fully disclosed. In those circumstances Mr Jacobs' evidence becomes important.

144. Mr Jacobs has been one of the claimants' licensees for some 25 years and at all material times was their licensee for the UK in respect of Luggage, watches and underwear. Appendix A to this judgment contains commercially confidential information and I direct that no part of it should be published other than to the parties without the permission of the court. The total sales generated by Mr Jacobs in the

years 2013-2015 are set out in Appendix A, Part 1 to this judgment. The biggest two customers by revenue over the period between 2013-15 are set out in Appendix A, Part 2. It is apparent from the material and Mr Jacobs accepted in the course of his cross examination that consistently the largest customer for Brand Goods for which he was the UK licensee was TK Maxx. It was suggested that it was a "*... well known discount retailer"*. Mr Jacob was prepared to accept only that it was a well-known retailer. Mr Jacob's reasons for this distinction were:

> "think anybody who knows TK Maxx knows that they are not a down and dirty retailer, quite the opposite. They sell tremendous brands, but it is always off-season items, so, for example, Debenhams we would have as our number one customer for profile quality, and so on and so forth, so we would not sell to TK Maxx the items that Debenhams are selling. We would wait until Debenhams has finished and maybe a year later, if we have some product left over, then it would go into the likes of TK Maxx. They are brands for less rather than what I would call a heavy discounter, but that is my view."

145. Mr Jacobs impressed me as a clearly honest, straight forward and candid witness and I accept this evidence. As Mr Jacobs added and I accept "*When we sell to TK Maxx, we are selling them items that are not our latest designs*". I also accept Mr Jacob's evidence that the figures for TK Maxx are as high as they are because he sold to it " *huge quantities of luggage which have significantly higher value…"* than his other high volume line which was underwear. To the extent that it is relevant, I reject the suggestion that in some way the sale of goods to T K Maxx undermined the claimants' case as to reputation. As Mr Jacobs said in the course of his evidence, all brands (other than those at the pinnacle of retail branding) need a means of disposing of out of date stock. One mechanism that all such brands use is to offer out of season stock to retail operations such as TK Maxx. As Mr Jacobs said in his evidence and I accept, there is no real brand damage suffered as a result of such activity because the Brand Goods are then offered in the same part of the TK Maxx stores as all the other branded goods falling within the same category. The example he gave in the course of his evidence was of Brand luggage being offered in the luggage section of TK Maxx alongside such brands as Samsonite. The Brand is no more damaged by such an exercise than is the Samsonite brand for example. This type of operation is materially different from the sale of current range branded goods in the stores that BV prohibits its licensees from selling to.

146. In relation to Factory Shop, Mr Jacobs described it as being:

> "an outlet for products. They are selling maybe equivalent to Costco. Put it like that. They are an outlet which also sell a lot of branded product.
>
> Q. Are they a discount type retailer as well or not?
>
> A. I would not put them as a discount retailer, but their mark-up is not so high. Again these things with Morrisons and Factory

> Shop include luggage. They are not just underwear only, so again the figures are skewed."

Many of the customers who purchased goods from Mr Jacobs bought luggage. Although it was suggested to him that all his customers were either supermarkets or discount stores he did not accept that to be so but in any event made the point in relation to luggage that:

> "These same people I am selling luggage to sell Samsonite. They sell Delsey. They sell Antler. I am very happy to be associated with those top luggage brands. These are not fashion outlets. You are mixing up my product lines. On luggage, we are selling in the same stores, as I mentioned, some of the largest brands in the world, and I am perfectly okay with that."

In the end Mr Saunders summarised the effect of this material in these terms:

> "What I want to suggest to you is that what it shows is that the brand was being sold in a range of shops in the UK, but quite a lot of them were at the low end. That would be fair, would it not?
>
> A. Sorry, repeat again?
>
> Q. What I would like to suggest is that the brands were being sold in a range of shops in the UK, but quite a lot of them, in terms of fashion retailing, were at the lower end, were they not? They are supermarkets and they are TK Maxx?
>
> A. Again, I think the point is my product, i.e. luggage, which is the vast majority of those sales, is not termed fashion product. Your question I do not think is necessarily valid. You know, luggage is not fashion.
>
> Q. I am just asking you about the brand, the Beverly Hills Polo Club brand, where would I see goods that are marked with that particular brand, as a consumer?
>
> A. You have the list in front of you. You can see that. Again, I am selling what I would term as accessories. We are selling some watches, we are selling luggage, we are selling underwear. You know, I am not the apparel license holder. There is a significant difference between selling apparel and selling some of the items that I sell."

As I have said, I accept Mr Jacobs' evidence in its entirety. As things have developed the only issue to which his evidence is relevant for the purposes of this trial is the threshold reputation issue. In my judgment his evidence corroborates in a material way the evidence contained in the written material relied on by the claimants relevant to the UK Mark. As Mr Saunders put it "*... the brands were being sold in a range of shops in the UK ...*".

147. Mr Saunders submitted that I should conclude that the UK Mark had no reputation in the UK because that was the effect of the oral evidence of the claimant's witnesses. I do not agree that the evidence shows that the Mark had no reputation. It is not consistent with what Mr Jacobs said. Whilst it is true to say that both Mr Haddad and Ms Willson commented on the position in the UK in terms that suggest they were talking about the UK Mark in general, on analysis what they were focusing on was what Mr Jacobs called apparel. However, even if the Mark did not have a reputation in apparel that is not material to the issue that I have to decide. Further, in relation to Mr Haddad's answers relied on by the defendants, I cannot safely rely on them as an acceptance of the points being put to him. Mr Haddad unfortunately had the habit of attempting on occasion to debate points with counsel rather than answering the questions put to him. This was an unattractive trait that served only to damage the credibility of his evidence. However, it is not safe to infer agreement from such conduct. Thus Mr Haddad appeared to accept that at the time when the Agreement was being negotiated, the Brand was not known to a substantial number of people in the UK:

> "Q. What I am going to suggest, Mr. Haddad, is that the United Kingdom trade mark, in the United Kingdom, your brand is not known by a substantial number of people.
>
> A. I have Sports Direct to thank for that. I gave them a chance to rebuild.
>
> Q. Again, what I will suggest is that it was not rebuilding, Mr. Haddad, it was building, was it not? Building from a low base and it has presented an opportunity to get your brand into a place that it was not previously?
>
> A. After you take something that is new and fresh and smash it down, okay, you need to take other steps to build and rebuild at the same time."

Similarly, in relation to this issue, Mr Haddad said this:

> "Q. Mr. Haddad, I am also going to suggest there is no reputation in the mark in the UK and that significant numbers of people are not familiar ----
>
> A. I thank you for that. That is why we are here."

In my judgment these answers were argumentative but in any event focussed on clothing alone.

148. Ms Willson's evidence was in my judgment truthful and frank and I accept it as such. On this issue her evidence was:

> "Q. Would it be fair to say that USC was a particularly important client?
>
> A. It was.

> Q. It was important because it gave you an opportunity to build the brand?
>
> A. Correct.
>
> Q. And it was important because it was a retailer that was slightly higher up the UK retail market; is that the reason?
>
> A. Correct, and it was a new trading area for us.
>
> Q. What do you mean by that?
>
> A. We did not have an exact presence in the UK at that point, as shop-in-shops, and we were looking for shop-in-shops in the UK.
>
> Q. Sorry, shop-in-shops?
>
> A. Shop-in-shop is a branded store inside a large store. We would have a designated space inside a USC store and it would be our -- what they prefer to as a pad, which is ----
>
> Q. Your zone?
>
> A. Our zone, correct. Our pad or piece of carpet that would be specifically designated for BHPC and we would have our fixtures and our visuals and our product in that shop, inside their shop.
>
> Q. That was a very important step in building your brand up?
>
> A. Correct.
>
> Q. Previously that had not been done?
>
> A. Not that I am aware of, no."

In my judgment this was evidence that focussed on the development of the Brand in relation to clothing. It was not suggested to her that she was in a position to comment on anything other than clothing. She did not suggest that the Brand generally had no reputation in the UK. What she was focussing on was the enhancement of the Brand's reputation in relation to clothing as is apparent in particular on her emphasis on what she called "*shop-in-shop"* marketing.

149. In my judgment the claimants have established to the requisite standard the existence of a reputation in the UK Mark in the UK.

The Counterclaim

150. By their counterclaim, the claimant seeks revocation of both Marks alternatively partial revocation of the Marks for non-use. By TMA, s.46:

> "(1) The registration of a trade mark may be revoked on any of the following grounds:
>
> …
>
> (b) that such use has been suspended for an uninterrupted period of five years and there are no proper reasons for non-use …"

and EUTMR, Art.58 provides:

> "1. The rights of the proprietor of the EU trade mark shall be declared to be revoked … on the basis of a counterclaim in infringement proceedings:
>
> (a) if, within a continuous period of five years the trade mark has not been put to genuine use in the Union in connection with the goods and services in respect of which it is registered … "

151. At the outset there is a jurisdictional issue that I have to resolve. Although Mr Saunders submitted that this was a point that had not been pleaded, in my judgment that is not to the point since the issue is one that goes to the jurisdiction of the court to make the orders sought by the defendants. In the end, Mr Saunders accepted that this was so – see T6/778/8-17.

The EU Mark

152. The relevant jurisdictional issue concerns the circumstances in which the court can determine an application to revoke or partly revoke an EU Mark. That issue was considered most recently by Mann J in Adobe Systems Inc v. Netcom Distributors and others [2012] ETMR 701. In essence the jurisdictional issue is whether the jurisdiction of the court to revoke (or partly revoke) a EU trade mark is limited to cases where revocation will assist the counterclaiming party to defend an infringement claim. The submission that Mann J had to consider was whether the court had jurisdiction to consider a counterclaim for revocation of part of a specification of a mark other than the part of the specification relied upon by the claimant. Mann J Held that the only counterclaim the court has jurisdiction to consider is one which if successful is capable of being a defence to the claim.

153. The EU Mark is registered in respect of "*clothing, footwear, headgear"*. Footwear and headgear are not in issue in these proceedings. It follows, so submit the claimants, that the court does not have jurisdiction to entertain the counterclaim based on non-use of the EU Mark in respect of either footgear or headgear. Mr Saunders submits that this goes further than the authority merits because Mann J was concerned with a counterclaim in respect of marks that were wholly unconnected with the marks the subject of the infringement claim. In my judgment, this is not an answer to the point. Mann J concluded as he did on the basis of a purposive construction of the Regulation then in force. It is not suggested that the current Regulation is materially different. The central point made by Mann J was that:

> "The scheme [of the Regulation] prevents a national court from exercising an original jurisdiction over the validity of marks and the underlying importance of the OHIM is obvious. It is the registering body and has full jurisdiction to entertain challenges to the mark. National courts have jurisdiction in relation to infringement. … Counterclaims in a National Court are allowed … but that makes policy sense in relation to defensive counterclaims. The national court can then deal with everything. Insofar as the mark is successfully attacked the infringement claim is equally affected. All that is disposed of in one court and on one occasion. . … It is not possible to identify any plausible policy objectives behind allowing a national court a wider jurisdiction … In the context in which the national courts are kept out of any jurisdiction to revoke marks by way of original jurisdiction why should they suddenly acquire it in relation to a given mark just because the mark is made the object of an infringement claim even though … the revocation would have no effect on that claim. "

In my judgment that reasoning applies with equal force to claims for partial revocation as it does to claims for total revocation. That being so I conclude that the counterclaim is one that the court has jurisdiction to consider only if and to the extent that if successful it is capable of being a defence to the claim. I conclude therefore that I do not have jurisdiction to consider a counterclaim for revocation made by reference to the inclusion either of footgear or headgear within the range of protection of the EU Mark.

154. In relation to clothing, it is submitted by the defendants that the scope of the EU Mark should be reduced by reducing by restrictive definition the scope of the protection afforded by the registration. I am very sceptical as to whether the court has jurisdiction to entertain this element of the counterclaim either because almost by necessity the category of goods that is the subject of the infringement claim will be included within the scope of clothing which it is accepted should be protected. As Mr St Quintin put it in his oral reply submissions, and I accept:

> "If my learned friend's counterclaim is entirely successful, it would have no bearing on whether infringement took place or not because it is accepted that all of the goods that the defendants sold are ones for which my clients have made genuine use."

155. Even if that is wrong I am nonetheless clear that the counterclaim in relation to the EU Mark should fail. In paragraph 40(d) of their re-re-re-amended Defence and Counterclaim, the defendants admit genuine use of the EU Mark in relation to:

> "… men's polo shirts, men's button up long sleeved shirts with collars, men's zip up hooded tops, men's half zip and half button sweatshirts, crew neck sweatshirts. Men's zip thru cardigans, men's chino trousers, men's cuffed jogging bottoms,

> men's short sleeved t-shirts, men's windbreaker jackets, men's Harrington jackets, and men's reversible gilets … "

Further, across Europe the retail sales figures and catalogues demonstrate use in respect of beachwear, men's wear, women's wear and children's wear. The European jurisprudence has long recognised that a proprietor cannot reasonably be expected to use his mark in respect of all possible variations of the particular goods or services covered by the registration – see Reckitt Benckiser (Espana) SL v. OHIM [2006] ETMR 50 at paragraph 46 by way of example. This led Kitchin LJ to summarise the effect of the various decisions of the CJEU in Maier v. Asos Plc [2015] FSR 20 in these terms:

> "The task of the court is to arrive, in the end, at a fair specification and this in turn involves ascertaining how the average consumer would describe the goods … in relation to which the mark has been used and considering the purpose and intended use of those goods … the court must identify the goods … in relation to which the mark has been used in the relevant period and consider how the average consumer would fairly describe them. In carrying out that exercise, the court must have regard to the categories of goods … for which the mark is registered and the extent to which those categories are described in general terms |If those categories are described in terms which are sufficiently broad so as to allow the identification within them of various sub-categories which are capable of being viewed independently then proof of use in relation to only one or more of those sub-categories will not constitute use of the mark in relation to all the other sub-categories."

Whilst I accept that clothing is a broad category of goods, it is impossible for me to discern any particular qualification on the word or sub-category or sub-categories that would be appropriate having regard to the wide categories of inner and outerwear for men women and children that has been sold using the EU mark.

The UK Mark

156. The jurisdictional point addressed above arises only in relation to the EU Mark not the revocation claim in respect of the UK Mark. The legal principles are those I have set out above in relation to the EU Mark. As with the EU Mark, the defendants admit the same use of the UK Mark as has been admitted for the EU Mark. In addition, the UK Mark has been put to use in relation to underwear as is demonstrated by Mr Jacobs' evidence. However, the use made of the UK Mark is significantly narrower than the use that has been made of the EU Mark. This is not seriously in dispute but is in any event clearly illustrated by comparing the UK entry within Confidential exhibit EH3 for the UK (which records sales of menswear and underwear) with that for Italy. In my judgment a modest reduction in the scope of the UK Mark is justified by this but the reduced scope proposed in RPC's letter to Brandsmiths of 8 March is too narrow and circumscribed applying the principles identified earlier in this judgment. In my

judgment the correct balance is struck by confining the scope of protection to "Men's clothing excluding footwear and headgear".

Conclusion

157. The claimants' claim made by reference to the 2013 Goods fails but otherwise the claimants are entitled in principle to succeed. The counterclaim fails in relation to the EU Mark and to that extent is dismissed but succeeds in relation to the UK Mark to the extent set out in paragraph 156 above.

158. At the hand down of this judgment I will ask the parties for further submissions as to the form of Order necessary to carry this judgment into effect and as to the further directions necessary to conclude the quantum aspects of these proceedings.