C-410/19-1

IN THE SUPREME COURT OF THE UNITED KINGDOM

22 MAY 2019

Before

Lord Reed
Lord Lloyd-Jones
Lord Kitchin

Computer Associates (UK) Ltd (Respondent) *v*
The Software Incubator Ltd (Appellant)

AFTER HEARING Counsel for the Appellant and Counsel for the Respondent on 28 March 2019

IT IS ORDERED THAT

1. The questions set out in the Schedule to this Order be referred to the Court of Justice of the European Union for a preliminary ruling under Article 267 of the Treaty on the Functioning of the European Union

2. All further proceedings as between the Appellant and the Respondent in Claim No: LM-2014-000241 be stayed until after the Court of Justice of the European Union has given its ruling on the questions referred or until further order

3. Costs be reserved.

Louise di Mambro.

Registrar
22 May 2019

SCHEDULE

The Referring Court

1. The referring court is the **Supreme Court of the United Kingdom**.

Parties

2. The parties to the main proceedings are:

2.1. **Software Incubator Limited ("Software Incubator")**, represented by: (1) **Fox Williams LLP,** 10 Finsbury Square, London EC2A 1AF; email VBergau@foxwilliams.com; telephone +44 2076282000; and (2) Oliver Segal Q.C., Old Square Chambers, 10-11 Bedford Row, London WC1R 4BU.

2.2. **Computer Associates UK Limited ("Computer Associates")**, represented by: (1) **CMS Cameron McKenna Nabarro Olswang LLP**, Cannon Place, 78 Cannon Street, London EC4N 6AF; email jeremy.mash@cms-cmno.com; telephone +44 2070673270; and (2) Jasbir Dhillon Q.C., Brick Court Chambers, 7-8 Essex Street, London WC2R 3LD.

The subject matter of the dispute in the main proceedings

3. The dispute in the main proceedings concerns a claim brought by Software Incubator against Computer Associates for compensation under the Commercial Agents (Council Directive) Regulations 1993 (**"Regulations"**), by which the UK brought into its law the provisions of Council Directive 86/653/EEC of December 1986 on the co-ordination of the laws of member states relating to self-employed commercial agents ("**Directive**").

4. The questions referred concern whether the definition of a commercial agent contained within Article 1(2) of the Directive, which is confined to the "*sale of goods*", applies to a copy of computer software which is supplied to a principal's customer electronically accompanied by the grant of a perpetual licence to use a copy of the software.

5. Software Incubator submitted that the supply of computer software to a principal's customer electronically accompanied by the grant of a perpetual licence to use a copy of the software constitutes the "*sale of goods*" within the meaning of Article 1(2) of the Directive. Computer Associates submitted that the supply of computer software to a principal's customer electronically accompanied by the grant of a limited term or perpetual licence to use a copy of the software does not constitute the "*sale of goods*" within the meaning of Article 1(2) of the Directive.

6. The High Court of England and Wales held, by a judgment dated 1 July 2016, that the supply of electronically supplied software accompanied by a perpetual licence amounted to the "*sale of goods*" and awarded Software Incubator GBP 475,000 as compensation pursuant to the Regulations.

7. On an appeal against that judgment, the Court of Appeal of England and Wales held, by a judgment dated 19 March 2018, that software which was supplied to a principal's customer electronically and not on any tangible medium does not constitute "*goods*" within the meaning of Regulation 2(1) of the Regulations and Article 1(2) of the Directive. As a result of this finding, the Court of Appeal concluded that Software Incubator was not a commercial agent for the purposes of the Regulations and dismissed its claim for compensation under the Regulations.

8. Software Incubator then applied to the Supreme Court of the United Kingdom for permission to appeal against the decision of the Court of Appeal. By an order dated 28 March 2019, the Supreme Court granted permission to appeal and now refers the questions below to the Court of Justice of the European Union for a preliminary ruling.

The relevant facts

Agreement

9. Software Incubator's claim arises from an agreement between Software Incubator and Computer Associates dated 25 March 2013 ("**Agreement**"). Pursuant to clause 2.1 of the Agreement, Software Incubator acted on behalf of Computer Associates to approach potential customers within the UK and Ireland for the purpose of "*promoting, marketing and selling the Product*". "*Product*" was defined in the 1st recital to the Agreement as "*application service automation software for deploying and managing applications across the data center*" ("**Software**"). Accordingly, for the purpose of the Agreement, Computer Associates was the principal and Software Incubator was the agent.

10. The Software is known as application release automation software ("**RAS**"). RAS is "software about software" in the sense that its purpose is to coordinate and implement automatically the deployment of and upgrades for other software applications across the different operational environments in large organisations such as banks and insurance companies, so that the underlying applications are fully integrated with the software operating environment. Sophisticated RAS is complex and expensive, and the time taken to conclude a close a deal with a large organisation can be considerable.

The Software

11. The Software was described by the High Court as sophisticated, commercial, non-bespoke software. It could be loaded onto the customers' hardware either by a tangible medium or by electronic download, as was provided for in contracts between Computer Associates and their customers. As recorded by the Court of Appeal, Computer Associates' unchallenged evidence was that: (1) Computer Associates provided the Software electronically via an email which contained a link to an online portal from which the customer downloaded the Software; and (2) the Software was never provided by Computer Associates to its customers using any tangible media.

Computer Associates' Licensing of the Software

12. Clause 4.1 of the Agreement provided that Computer Associates would have the exclusive right to determine the terms and conditions in connection with licensing the Software to customers; clause 6.1 provided that Computer Associates would charge and collect all "*fees*" due from customers associated with the "*use*" of the Software. Software Incubator's authority was concerned with the promotion of grants by Computer Associates to its customers of licences to use the Software. Software Incubator did not have any authority to transfer title or property in the Software.

13. Computer Associates entered into licences permitting its customers to use the Software on the terms set out in the Software Module pursuant to the Foundation Agreement in the case of new customers, or the Master Agreement in the case of existing customers. New customers gained access to the Software by completing an Order Form which stated that the Software specified in the Order Form was "*made available to Customer pursuant to the terms of this Order Form and the Foundation Agreement referred to above. The licence to use the CA Software is granted to Customer by CA Europe S.A.R.L. pursuant to the Software Module between Customer and CA Europe S.A.R.L.*". For customers who had a Master Agreement with Computer Associates, the licences of the Software were on the terms set out in that agreement (which are materially similar to the Foundation Agreement and Software Module).

14. By clause 3.1 of the Software Module, CA Europe S.A.R.L. ("**CA Europe**") granted the customer a limited, non-exclusive, non-transferable licence for the Term to: (i) install and deploy the Software in the specified Territory up to the authorised number of end users; (ii) permit the authorised end users access to the Software; (iii) make a reasonable number of copies of the Software for disaster recovery; and (iv) relocate the Software to a new location within the Territory upon prior written notice.

15. By clause 3.4 of the Software Module, the licence was contingent upon the customer's compliance with obligations that the customer would not: (i) access or use any portion of the Software which it was not authorised to use; (ii) cause or permit de-compilation or reverse engineering of the Software; (iii) modify the Software; (iv) rent, assign, transfer or sub-license the Software; (v) remove any proprietary notices, labels or marks on any copy of the Software; or (vi) exceed the authorised number of end users.

16. Clause 4.1 of the Software Module provided that Computer Associates / CA Europe retained "*all right, title, copyright, patent, trademark, trade secret and all other proprietary interests to*" the Software and no such rights were granted to the customer. Clause 9.12 of the Software Module also made clear that the licence only created rights personal to the parties.

17. Any licence of the Software might be for an indefinite period ("*perpetual licence*") or a limited period of time. In practice, most licences were perpetual. By clause 10.2 of the Foundation Agreement, either party was permitted to terminate the agreement upon a material breach by the other party (subject to applicable notice and failure to cure periods) or upon the other party's insolvency, after which the relevant licence would be immediately revoked and any copies of the Software were to be returned to Computer Associates, deleted or destroyed by the customer.

Termination of the Agreement

18. By a letter dated 9 October 2013, Computer Associates terminated the Agreement with Software Incubator.

Relevant legal provisions

19. The national provision applicable to the facts is the definition of a commercial agent in Regulation 2(1) of the Regulations, which reads that *"In these Regulations ... "commercial agent"*

means a self-employed intermediary who has continuing authority to negotiate the sale or purchase of goods on behalf of another person (the "principal"),

...".

20. The provision of EU law whose interpretation is sought is Article 1(2) of Council Directive 86/653/EEC of December 1986 on the co-ordination of the laws of member states relating to self-employed commercial agents, which states that *"For the purposes of this Directive, 'commercial agent' means a self-employed intermediary who has continuing authority to negotiate the sale or purchase of goods on behalf of another person, hereinafter called the 'principal' ...".*

Grounds for the reference

21. The Directive required the United Kingdom to bring into force the provisions of the Directive, including:

21.1. The right of a commercial agent to compensation or indemnity on termination (provided for in Article 17 of the Directive), which was the subject matter of the relevant claim; and

21.2. The definition of a commercial agent, as to which the national provision applicable to the facts is taken directly from, and quotes the English version of, the same provision of the parent Directive (Article 1(2)).

22. The referring court seeks a preliminary ruling about the interpretation of Article 1(2) because it considers that it is not *acte clair* whether that definition applies on the facts of this case, as more particularly set out in the questions referred.

Questions referred for a preliminary ruling

23. The questions the referring court submits to the CJEU for preliminary ruling are:-

(1) Where a copy of computer software is supplied to a principal's customers electronically, and not on any tangible medium, does it constitute "*goods*" within the

meaning of that term as it appears in the definition of a commercial agent in Article 1(2) of Council Directive 86/653/EEC of December 1986 on the co-ordination of the laws of member states relating to self-employed commercial agents ("**Directive**")?

(2) Where computer software is supplied to a principal's customers by way of the grant to the customer of a perpetual licence to use a copy of the computer software, does that constitute a "*sale of goods*" within the meaning of that term as it appears in the definition of commercial agent in Article 1(2) of the Directive?

Registrar
22 May 2019