Court of Justice EU, 16 September 2021, Software Incubator v Computer Associates

IP RIGHTS IN REM –PROPERTY LAW

The term *sales of goods* includes electronic delivery of computer software

- **The concept of *sales of goods* referred to in Article 1(2) of Council Directive 86/653/EEC of 18 December 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents must be interpreted as meaning that it may refer to the electronic delivery of computer software to a customer against payment of a price, when such delivery is accompanied by the granting of a permanent license to use that software.**

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Court of Justice EU, 16 september 2021
(M. Vilaras, N. Piçarra, D. Šváby, S. Rodin en K. Jürimäe)

JUDGMENT OF THE COURT (Fourth Chamber) 16 September 2021* (Reference for a preliminary ruling – Self-employed commercial agents – Directive 86/653/EC – Article 1(2) – Definition of *commercial agent* – Supply of computer software to customers by electronic means – Grant of a perpetual license for use – Concepts of *sale* and *goods*)
In Case C-410/19, REQUEST for a preliminary ruling under Article 267 TFEU from the Supreme Court of the United Kingdom, made by decision of 22 May 2019, received at the Court on 27 May 2019, in the proceedings The Software Incubator Ltd v Computer Associates (UK) Ltd,
THE COURT (Fourth Chamber), composed of M. Vilaras, President of the Chamber, N. Piçarra, D. Šváby, S. Rodin and K. Jürimäe (Rapporteur), Judges, Advocate General: E. Tanchev, Registrar: A. Calot Escobar, having regard to the written procedure, after considering the observations submitted on behalf of:
– The Software Incubator Ltd, by O. Segal QC and E. Meleagros, Solicitor,
– Computer Associates (UK) Ltd, by J. Dhillon QC and D. Heaton, Barrister, and by C. Hopkins and J. Mash, Solicitors,
– the German Government, by J. Möller, M. Hellmann and U. Bartl, acting as Agents,
– the European Commission, by L. Armati and L. Malferrari, acting as Agents, EN Reports of Cases after hearing the Opinion of the Advocate General at the sitting on 17 December 2020, gives the following
Judgment
1. This request for a preliminary ruling concerns the interpretation of Article 1(2) of Council Directive 86/653/EEC of 18 December 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents (OJ 1986 L 382, p. 17).
2. The request has been made in proceedings between The Software Incubator Ltd and Computer Associates (UK) Ltd (*Computer Associates*) concerning the payment of compensation following the termination of the agreement between those two companies.
Legal context
EU law
The withdrawal agreement
3. By Decision (EU) 2020/135 of 30 January 2020 on the conclusion of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community (OJ 2020 L 29, p. 1; *the withdrawal agreement*), the Council of the European Union approved the withdrawal agreement, which was attached to the decision, on behalf of the European Union and the European Atomic Energy Community.
4. Article 86 of the withdrawal agreement, entitled *Pending cases before the Court of Justice of the European Union*, provides, in paragraphs 2 and 3 thereof: *(2) The Court of Justice of the European Union shall continue to have jurisdiction to give preliminary rulings on requests from courts and tribunals of the United Kingdom made before the end of the transition period. (3) For the purposes of this Chapter, proceedings shall be considered as having been brought before the Court of Justice of the European Union, and requests for preliminary rulings shall be considered as having been made, at the moment at which the document initiating the proceedings has been registered by the registry of the Court of Justice …*
5. In accordance with Article 126 of the withdrawal agreement, the transition period started on the date of entry into force of that agreement and ended on 31 December 2020.
Directive 86/653
6. The second and third recitals of Directive 86/653 state: *Whereas the differences in national laws concerning commercial representation substantially affect the conditions of competition and the carrying-on of that activity within the [European Union] and are detrimental both to the protection available to commercial agents vis-à-vis their principals and to the security of commercial transactions; whereas moreover those differences are such as to inhibit substantially the conclusion and operation of commercial representation contracts where principal and commercial agent are established in different Member States; Whereas trade in goods between Member States should be carried on*

under conditions which are similar to those of a single market, and this necessitates approximation of the legal systems of the Member States to the extent required for the proper functioning of the common market; whereas in this regard the rules concerning conflict of laws do not, in the matter of commercial representation, remove the inconsistencies referred to above, nor would they even if they were made uniform, and accordingly the proposed harmonization is necessary notwithstanding the existence of those rules.

7. Article 1 of that directive provides: *(1) The harmonization measures prescribed by this Directive shall apply to the laws, regulations and administrative provisions of the Member States governing the relations between commercial agents and their principals. (2) For the purposes of this Directive, commercial agent shall mean a self-employed intermediary who has continuing authority to negotiate the sale or the purchase of goods on behalf of another person, hereinafter called the principal, or to negotiate and conclude such transactions on behalf of and in the name of that principal. (3) A commercial agent shall be understood within the meaning of this Directive as not including in particular: – a person who, in his capacity as an officer, is empowered to enter into commitments binding on a company or association, – a partner who is lawfully authorized to enter into commitments binding on his partners, – a receiver, a receiver and manager, a liquidator or a trustee in bankruptcy.*

8. Article 2(1) of Directive 86/653 provides:

This Directive shall not apply to:

– commercial agents whose activities are unpaid,

– commercial agents when they operate on commodity exchanges or in the commodity market, or

– the body known as the Crown Agents for Overseas Governments and Administrations, as set up under the Crown Agents Act 1979 in the United Kingdom, or its subsidiaries.

9. Article 3 of that directive states*: (1) In performing [his] activities a commercial agent must look after his principal's interests and act dutifully and in good faith. (2) In particular, a commercial agent must: (a) make proper efforts to negotiate and, where appropriate, conclude the transactions he is instructed to take care of; (b) communicate to his principal all the necessary information available to him; (c) comply with reasonable instructions given by his principal*.

10. Article 4(2) of Directive 86/653 provides: *A principal must in particular: (a) provide his commercial agent with the necessary documentation relating to the goods concerned; (b) obtain for his commercial agent the information necessary for the performance of the agency contract, and in particular notify the commercial agent within a reasonable period once he anticipates that the volume of commercial transactions will be significantly lower than that which the commercial agent could normally have expected.*

11. Article 6(1) of that directive provides: *In the absence of any agreement on this matter between the parties, and without prejudice to the application of the compulsory provisions of the Member States concerning the level of remuneration, a commercial agent shall be entitled to the remuneration that commercial agents appointed for the goods forming the subject of his agency contract are customarily allowed in the place where he carries on his activities. If there is no such customary practice a commercial agent shall be entitled to reasonable remuneration taking into account all the aspects of the transaction.*

United Kingdom law

12. Directive 86/653 was implemented in United Kingdom law by the Commercial Agents (Council Directive) Regulations 1993 (Statutory Instruments 1993/3053). Regulation 2(1) of those regulations provides: *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), or to negotiate and conclude the sale or purchase of goods on behalf of and in the name of that principal …*

The main proceedings and the questions referred for a preliminary ruling

13. Computer Associates is a company which markets application service automation software for deploying and managing applications across a data center (*the software at issue*). The purpose of that software is to coordinate and implement automatically the deployment of and updates for other applications across the different operational environments in large organizations such as banks and insurance companies, so that the underlying applications are fully integrated with the software operating environment.

14. Computer Associates granted its customers, by electronic means, licenses to use the software at issue in a specified territory for an authorized number of end users.

15. The grant of the license for that software was contingent upon compliance with obligations under which the customer was not authorized, in particular, to access any unauthorized portion of the software, to de-compile or modify it, or to rent, assign or transfer it or to grant a sub-license.

16. It is apparent from the information provided by the referring court that the license to use the software at issue could be granted either indefinitely or for a limited period of time. In the event of termination of the agreement for material breach attributable to the other party or on account of the latter's insolvency, that software was to be returned to Computer Associates, deleted or destroyed by the customer. In practice, most licenses were, however, granted indefinitely. Computer Associates retained, in that regard, all rights, in particular copyright, title, patent, trade mark right and all other proprietary interests in and to the software at issue.

17. On 25 March 2013, Computer Associates entered into an agreement with The Software Incubator. Under Clause 2.1 of that agreement, the latter company acted on behalf of Computer Associates to approach potential customers within the United Kingdom and Ireland for the purpose of *promoting, marketing and selling the [software at issue]*. Under the agreement, The Software Incubator's obligations were limited to the promotion

and marketing of that software. The Software Incubator did not have any authority to transfer property in the software.

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

19. The Software Incubator brought an action for damages, on the basis of the provisions of national law implementing Directive 86/653, against Computer Associates before the High Court of Justice (England & Wales), Queen's Bench Division (United Kingdom). Computer Associates disputed the classification of its relationship with The Software Incubator as a commercial agency contract, contending that the supply of computer software to a customer by electronic means accompanied by the grant of a perpetual license to use that software did not constitute a *sale of goods* within the meaning of Article 1(2) of that directive.

20. By decision of 1 July 2016, the High Court of Justice (England & Wales), Queen's Bench Division, granted The Software Incubator's application and ordered that that company be awarded 475 000 pounds sterling (GBP) (approximately EUR 531 000) by way of compensation. That court took the view, in that context, that the *sale of goods* within the meaning of Statutory Instruments 1993/3053 referred to an autonomous definition which had to include the supply of software.

21. Computer Associates lodged an appeal against that judgment before the Court of Appeal (England & Wales) (Civil Division) (United Kingdom). By decision of 19 March 2018, that court held that software supplied to a customer electronically does not constitute *goods* within the meaning of Article 1(2) of Directive 86/653, as interpreted by the Court of Justice. It concluded that The Software Incubator was not a *commercial agent* within the meaning of that provision and dismissed its claim for compensation.

22. The Software Incubator challenged that decision before the Supreme Court of the United Kingdom.

23. That court seeks from the Court of Justice an interpretation of Article 1(2) of Directive 86/653 which it needs in order to determine whether the concept of *commercial agent* having authority to negotiate the *sale of goods* applies in the case of a supply of computer software by electronic means to the customer, the use of that software being governed by a license granted indefinitely.

24. In those circumstances, the Supreme Court of the United Kingdom decided to stay the proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

(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 license 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?

The questions referred

25. As a preliminary point, it follows from Article 86(2) of the withdrawal agreement, which entered into force on 1 February 2020, that the Court of Justice is to continue to have jurisdiction to give preliminary rulings on requests from courts and tribunals of the United Kingdom which were made before the end of the transition period set at 31 December 2020, and this is so in the case of the present request for a preliminary ruling.

26. By its questions, which must be examined together, the referring court asks, in essence, whether the concept of *sale of goods* referred to in Article 1(2) of Directive 86/653 must be interpreted as meaning that it can cover the supply, in return for payment of a fee, of computer software to a customer by electronic means where that supply is accompanied by the grant of a perpetual license to use that software.

27. Article 1(2) of Directive 86/653 defines a *commercial agent*, for the purposes of that directive, as a self-employed intermediary who has continuing authority to negotiate the sale or the purchase of goods on behalf of another person, referred to as the *principal*, or to negotiate and conclude such transactions on behalf of and in the name of that principal.

28. That provision lays down the three necessary and sufficient conditions for a person to be classified as a *commercial agent*. First, that person must be a self-employed intermediary. Second, he must be bound to the principal by a contractual relationship of a continuing character. Third, he must exercise, on behalf of and in the name of the principal, an activity which may consist either simply in being an intermediary for the sale or purchase of goods or in both acting as intermediary and concluding sales or purchases of goods (judgment of 21 November 2018, Zako, C-452/17, EU:C:2018:935, paragraph 23).

29. In the present case, only the third of those conditions, in so far as it concerns the negotiation of the *sale of goods* for the principal, is at issue. In that regard, it must be noted that Directive 86/653 does not define the concept of *sale of goods* and does not make any reference to national law concerning the meaning to be given to that concept.

30. In those circumstances, the concept of *sale of goods* must be given an autonomous and uniform interpretation throughout the European Union, in the light of the need for the uniform application of EU law in conjunction with the principle of equality. That concept therefore constitutes an autonomous concept of EU law and its scope cannot be determined by reference either to concepts known to the laws of the Member States or to classifications made at national level (see, by analogy, judgment of 9 July 2020, RL (Directive combating late payment), C-199/19, EU:C:2020:548, paragraph 27 and the case-law cited).

31. In that regard, it should be borne in mind that the meaning and scope of terms for which EU law gives no definition must be determined by considering their usual

meaning in everyday language, while also taking into account the context in which they occur and the purposes of the rules of which they are part (judgment of 4 June 2020, Trendsetteuse, C-828/18, EU:C:2020:438, paragraph 26 and the case-law cited).

32. It is in the light of those considerations that it must be determined whether the concept of *sale of goods* in Article 1(2) of Directive 86/653 can cover the supply, in return for payment of a fee, of computer software to a customer by electronic means where that supply is accompanied by the grant of a perpetual license to use that software.

33. As regards the wording of that provision, it should be noted that that provision refers in general terms to the concept of *sale of goods* without defining the terms *sale* or *goods*, which are not, moreover, defined in any other provision of that directive.

34. In the first place, as regards the term *goods*, according to the Court's case-law, that term is to be understood as meaning products which can be valued in money and which are capable, as such, of forming the subject of commercial transactions (see, to that effect, judgment of 26 October 2006, Commission v Greece, C-65/05, EU:C:2006:673, paragraph 23 and the case-law cited).

35. It follows that that term, as a result of its general definition, can cover computer software, such as the software at issue, since computer software has a commercial value and is capable of forming the subject of a commercial transaction.

36. Furthermore, it must be stated that software can be classified as *goods* irrespective of whether it is supplied on a tangible medium or, as in the present case, by electronic download.

37. First, as the Advocate General observed in point 55 of his Opinion, the use of the term *goods* in the various language versions of Directive 86/653 does not indicate any distinction according to the tangible or intangible nature of the goods concerned.

38. Secondly, the Court has already held that, from an economic point of view, the sale of a computer program on CD-ROM or DVD and the sale of such a program by downloading from the internet are similar, since the online transmission method is the functional equivalent of the supply of a material medium (**judgment of 3 July 2012, UsedSoft, C-128/11, EU:C:2012:407, paragraph 61**).

39. Accordingly, the term *goods* within the meaning of Article 1(2) of Directive 86/653 can cover computer software regardless of the medium on which that software is supplied.

40. In the second place, according to a commonly accepted definition, a *sale* is an agreement by which a person, in return for payment, transfers to another person his rights of ownership in an item of tangible or intangible property belonging to him (**judgment of 3 July 2012, UsedSoft, C-128/11, EU:C:2012:407, paragraph 42**).

41. In the particular case of the sale of a copy of computer software, the Court has held that the downloading of a copy of a computer program and the conclusion of a user license agreement for that copy form an indivisible whole. Downloading a copy of such a program is pointless if the copy cannot be used by its possessor. Those two operations must therefore be examined as a whole for the purposes of their legal classification (see, to that effect, **judgment of 3 July 2012, UsedSoft, C-128/11, EU:C:2012:407, paragraph 44**used).

42. Accordingly, the Court has taken the view that the making available of a copy of computer software by means of a download and the conclusion of a user license agreement for that copy, intended to make the copy usable by the customer, permanently, and in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor, involve the transfer of the right of ownership of that copy (see, to that effect, **judgment of 3 July 2012, UsedSoft, C-128/11, EU:C:2012:407, paragraphs 45 and 46**).

43. Consequently, in the light of the wording of Article 1(2) of Directive 86/653, it must be held that the supply, in return for payment of a fee, of computer software to a customer by electronic means where that supply is accompanied by the grant of a perpetual license to use that software can be covered by the concept of *sale of goods* within the meaning of that provision.

44. That interpretation is supported by the context of that article.

45. Article 1(3) and Article 2 of Directive 86/653 provide for certain well-defined exclusions from the definition of *commercial agent* and the scope of that directive (judgment of 21 November 2018, Zako, C-452/17, EU:C:2018:935, paragraph 40).

46. However, none of those exclusions concerns the nature of the *sale of goods* which forms the subject of the activity of a *commercial agent* and which is referred to in Article 1(2) of that directive.

47. Furthermore, as the Advocate General observed, in essence, in points 66 and 67 of his Opinion, a *sale of goods* of the type described in paragraph 43 of the present judgment does not prevent the respective rights and obligations of the commercial agent and of the principal from being performed in accordance with the provisions of Articles 3 to 5 of Directive 86/653 or the commercial agent from receiving remuneration in accordance with the provisions of Article 6 of that directive.

48. Lastly, the interpretation referred to above is supported by the objectives of Directive 86/653, which seeks, in accordance with the second and third recitals thereof, to protect commercial agents in their relations with their principals, to promote the security of commercial transactions, and to facilitate trade in goods between Member States by harmonizing their legal systems within the area of commercial representation (see, to that effect, judgment of 21 November 2018, Zako, C-452/17, EU:C:2018:935, paragraph 26 and the case-law cited).

49. In that regard, the effectiveness of the protection granted by Directive 86/653 would be undermined if the

supply of software, in the circumstances referred to in paragraph 43 of the present judgment, were to be excluded from the concept of *sale of goods* within the meaning of Article 1(2) of that directive.

50. That interpretation of that provision would exclude from the benefit of that protection persons carrying out, with the assistance of modern technology, tasks comparable to those carried out by commercial agents whose task is to sell tangible goods, in particular by identifying prospective clients and directly approaching them.

51. It follows from all of the foregoing considerations that the answer to the questions referred is that the concept of *sale of goods* referred to in Article 1(2) of Directive 86/653 must be interpreted as meaning that it can cover the supply, in return for payment of a fee, of computer software to a customer by electronic means where that supply is accompanied by the grant of a perpetual license to use that software.

Costs

52. Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the referring court, the decision on costs is a matter for that court. Costs incurred in submitting observations to the Court, other than the costs of those parties, are not recoverable. On those grounds, the Court (Fourth Chamber) hereby rules: The concept of *sale of goods* referred to in Article 1(2) of Council Directive 86/653/EEC of 18 December 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents must be interpreted as meaning that it can cover the supply, in return for payment of a fee, of computer software to a customer by electronic means where that supply is accompanied by the grant of a perpetual license to use that software. Vilaras Piçarra Šváby Rodin Jürimäe Delivered in open court in Luxembourg on 16 September 2021. Calot Escobar Registrar M. Vilaras President of the Fourth Chamber.