



Neutral Citation Number: [2019] EWHC 1639 (IPEC)

Claim No: IP-2017-000241

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS OF ENGLAND AND WALES
INTELLECTUAL PROPERTY ENTERPRISE COURT

Royal Courts of Justice, Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 25th June 2019

Before :

Mr RECORDER DOUGLAS CAMPBELL QC
(sitting as a High Court Judge)

B E T W E E N:

THE KENNEL CLUB LIMITED

Claimant

- and -

MICRO-ID LIMITED

Defendant

Lindsay Lane QC (instructed by Farrer & Co LLP) for the **Claimant**

Nicholas Brummitt (a director of the Defendant) for the **Defendant**

Hearing dates: 13th – 14th May 2019

Approved Judgment

I direct that pursuant to CPR PD 39A para 6.1 no official shorthand note shall be taken of this Judgment and that copies of this version as handed down may be treated as authentic.

Mr Recorder Douglas Campbell QC:

Introduction

1. The Claimant is a well-known organisation in relation to dog welfare. Among its other activities, it has since the early 1990s operated what was referred to at the trial as the Petlog database. This holds data from animals which have been implanted with microchips supplied by various companies. The Defendant is one such supplier. The idea is that if the dog is lost, then the microchip ID can be read using a suitable device and compared against the information stored on the Petlog database so that the dog can be reunited with its owner.

2. This action is brought by the Claimant against the Defendant for a debt in the sum of £123 843.03, alternatively for breach of a contract entitled the Reunification Database Management Agreement which was entered into between the parties on 4th January 2010 (“the Agreement”). There is no dispute as to the existence or amount of the debt. There is a defence of set-off which alleges breach of the Agreement, alternatively infringement of database right under The Copyright and Rights in Databases Regulations 1997 (“the Database Regulations”). Both the Agreement and the database infringement claim relate to the Petlog database. Since it was not disputed that the Petlog database qualified for protection within the particular meaning of “database” defined in the Database Regulations, I will simply refer to Petlog from now on.

3. There is no counterclaim as such, but at the case management conference held before HHJ Hacon on 18 July 2018 express provision was made whereby the Defendant can, if its set off is greater in value than the Claimant’s claim, apply at trial to claim for the difference.

4. The Claimant was professionally represented throughout. The Defendant was legally represented when it filed its Defence, but was represented at trial by one of its directors, Mr Nicholas Brummitt. Mr Brummitt was, understandably, unfamiliar with many aspects of Court procedure but he was a quick learner and I am grateful to him for making my job easier. The present case is therefore yet another in which one side is professionally represented and the other is not. The Court must nevertheless apply the same rules to each side.

5. There were applications by both sides at the outset of the trial to adduce further material, permission for which had not been given at the case management conference. I refused both applications on the ground that in each case there were no exceptional circumstances as required by Part 63.23(2).

6. After the trial was completed Mr Brummitt made what was in effect a further application to adduce more material, namely extracts from the Claimant’s annual reports as filed at Companies House. I refuse this application since again there are no exceptional circumstances. In any event the statements in these documents on which Mr Brummitt relied (eg “*The Kennel Club’s key resources are its data ...*”) are so general that they do not take matters forward.

The witnesses

7. I heard oral evidence on behalf of the Claimant from each of Ms Jacqueline Easton, who has worked for the Claimant since 1986 and is now its Chief Operating Officer; Ms Helen Fox, who has worked for the Claimant since 1996, and was its Marketing and Business Development Executive between 1996 and April 2018; and Mr Kevin McGuirk, who has worked for the Claimant since 2017 and is now its Chief Finance Officer. Mr Brummitt expressed surprise at some of the answers these witnesses gave, but I am satisfied that they were all doing their best to assist the Court and I accept their evidence.

8. I made it clear at the beginning of the trial that each side would be allowed only 2 hrs 15 minutes for cross-examination. I also periodically reminded each side of the time they had left so that they could use their remaining time most effectively. The imposition of this limit nevertheless meant that Mr Brummitt ran out of time in which to cross-examine Ms Anita Tabrett, who has worked for the Claimant since 1999 and is now a Welfare Relationship Manager. Her evidence is therefore unchallenged.

9. I heard oral evidence on behalf of the Defendant from Richard Fry, a director and shareholder of the Defendant. It was Mr Fry, and not Mr Brummitt, who had conducted the Defendant's dealings with the Claimant over most of the relevant period. Mr Brummitt first became involved with the Defendant in September 2016 and only became aware of the Agreement in November 2016 as part of a due diligence process.

10. Mr Brummitt had a number of comments about Mr Fry's evidence, as follows.

11. First, Mr Brummitt attacked Mr Fry's credibility on the grounds that when Mr Fry was during his cross-examination shown slides from a 2010 meeting which he had attended, Mr Fry said he "vaguely" recalled these slides. Even assuming Mr Brummitt is entitled to attack his own witness's credibility, which he is not, I do not accept that this example shows any lack thereof. At most it shows Mr Fry being somewhat charitable, but no more than that. In any event the authenticity of the slides themselves was not challenged so the point goes nowhere.

12. Secondly Mr Brummitt also complained that some of the questions put to Mr Fry in cross-examination were unfair. When I asked him for an example he specifically relied on the following passage:

Q. And it's therefore in your interests for Petlog to work as a reunification tool, correct?"

A. Correct.

Q. And so it's very important, as we've discussed earlier on, I think, to keep contact details up-to-date if you want reunification to work; correct?"

A. Yes"

13. I accept that with a vulnerable witness this structure of question (sometimes called a "tag" question) should be treated with caution depending on the witness's degree of vulnerability. However Mr Fry was not a vulnerable witness and nor did it appear to me that he was confused or uncertain as to the meaning of these questions. Secondly if Mr Brummitt felt that these questions were unfair, he should have complained at the time they were asked rather than leaving it until the next day. Thirdly it is in any event difficult to see how the

answers to these questions could reasonably have been anything other than the ones Mr Fry gave. It is the supplier's interests for Petlog to work as a reunification tool, since that is the reason for the microchip. It is also very important to keep contact details up to date if you want reunification of pet and owner to work.

14. I therefore reject these criticisms. I found Mr Fry to be a good witness. The Claimant had no criticism of him either.

15. Mr Brummitt himself gave written evidence and the Claimant chose not to cross-examine him on it. Accordingly his written evidence is also unchallenged. Where it contains matters of opinion rather than primary facts, I accept that Mr Brummitt genuinely holds these opinions.

The issues

16. Thirteen issues were identified in the case management conference, falling into 4 main categories as follows:

1. The Agreement
2. Alleged Breach of the Agreement
3. Alleged Database right infringement
4. Quantum

I shall use these as the main headings and the thirteen more specific issues as subheadings.

The Agreement

Legal context

17. The most recent distillation of the relevant legal principles, by now very well-known, is by Popplewell J in **Lukoil Asia Pacific PTE Limited v Ocean Tankers (PTE) Limited** [2018] EWHC 163 (Comm) at [8]. I shall apply these principles.

Issue 1- What is the factual matrix against which the Agreement was made?

18. Much of this evidence was in the end undisputed. The following are my findings in respect thereof.

Petlog and Petlog Premium

19. As I have already stated, the Claimant has operated Petlog since the early 1990s. Initially the RSPCA was the only supplier of microchips, but subsequently others joined this market. For instance there were 11 in 2016 and now there are 6. Petlog was not intended to operate as a commercial enterprise, and instead welfare and reunification was the primary focus. Demands on the service grew by the early 2000s, as did the Claimant's investment in building, developing, and maintaining a bespoke IT system.

20. Mr McGuirk set out detailed figures as to the investment made by the Claimant in Petlog from 2010 to 2017 in his confidential exhibit KM1. I will not set out the precise

figures but the combination of the total for Aylesbury staff costs and total head office costs rose from just under £1m per year in 2010 to nearly £2m in 2016. These figures were not challenged. It was not suggested that they were insubstantial, nor that the figures for the years leading up to 2010 were significantly different.

21. The Claimant always charged microchip suppliers a fee to go towards the cost of the reunification service. This fee did not come near to covering the actual costs of running the overall service including the cost of providing lifetime support to the owner. For instance the fee did not include the costs of registering change of contact details for the owner, for which the owner was charged a separate fee (eg £10).

22. In 2003 the Claimant launched a Lifetime Membership Scheme, initially called “Petlog Plus” and subsequently “Petlog Premium”: I will use the latter term for consistency. Enrolment in Petlog Premium has always been optional and is done after the owner has first registered in the basic Petlog scheme. The key feature was that the owner could choose to pay a fee (eg £19) only once for the lifetime of their pet, which included unlimited change of contact details as well as other benefits. The idea was that as well as generating additional revenue generally, owners would be more likely to register updated contact details if it was free to do so than they would be if they had to pay. After a customer has enrolled in Petlog Premium, a flag is created on the Claimant’s systems to show that the owner has done so.

23. As shown in Mr McGuirk’s confidential exhibit, the Petlog trading position is still loss making over the life of microchipped pet despite the introduction of Petlog Premium. This is because of what he called the significant cost “tail” of all the costs incurred during the pet’s lifetime. The figures used to demonstrate this started with the year 2010, but again it was not suggested that the position pre-2010 would have been any different. Mr McGuirk added that it would be artificial to apportion costs as between Petlog and Petlog Premium, since all income goes towards the base costs of operating, maintaining, and managing both services.

The Birth Registry Database

24. The Claimant also had another database variously referred to as the Birth Registry Database or the Ancestry Database. This was used to record parentage and pedigree information of dogs. This sat on a different server to Petlog and the records were not linked. Both staff and customers have to log in separately. There was limited evidence about this topic, because the Birth Registry Database was not pleaded and these details only came out in cross-examination to which the Claimant did not object as such.

The parties’ knowledge of such facts

25. All of the facts set out in paragraphs [19]-[24] were known to the Claimant prior to the Agreement.

26. Mr Fry did not dispute, and I find, that he knew about both Petlog and Petlog Premium and how they worked at the time of entering the contract in 2010. For instance from 2001 to 2004 he ran another microchip supplier called Pet ID which dealt with the Claimant in relation to Petlog, and he remembered “*something being promoted that was trying to get people to upgrade*” in or around 2003. Mr Fry was told about Petlog and Petlog Premium again in an email from the Claimant dated 23 October 2009. This email discussed the operation of Petlog in some detail and also stated “*Petlog operate a clear no marketing policy, other than Petlog Premium – which all owners are offered on point of registration*”.

27. It was not put to Mr Fry that he knew anything about Petlog’s financial position prior to the Agreement, nor that he knew anything about the Birth Registry Database. I make no findings about his knowledge on either of these topics.

Issue 2 – What is the correct construction of clause 2.1 of the Agreement?

28. Any clause has to be construed in its context, and I was referred by the parties to each of sections 1, 2.1.1-2.1.4, 3.24.4, 4.5, 6.1, 6.28.4.2, 10.1, 11.1, and 11.2. However the only clauses said to be breached are clauses 2.1.1 and 2.1.3: see the Defendant’s Particulars dated 25 September 2018 (“the Defendant’s Particulars”), which were produced pursuant to the Order of HHJ Hacon made at the case management conference on 13 July 2018. These clauses state as follows:

“2 MAINTENANCE OF REUNIFICATION DATABASE

2.1 The [Claimant] agree with [the Defendant]:

2.1.1 to maintain the Database throughout the period of this Agreement and thereafter in accordance with the provisions of clause 8.4.2

...

2.1.3 to ensure that all registration forms are entered in date order of receipt within five working days of receipt, subject at all times to events beyond the reasonable control of the [Claimant], and that [the Defendant’s] forms are treated with equal priority to those from Other Suppliers”

29. The Database referred to here is Petlog: see section 1 of the Agreement. Clause 8.4.2 sets out the Claimant’s continuing obligation to the pet keeper whose animals have been implanted with the Defendant’s Microchips even where the Agreement is terminated.

30. The Claimant also relied on clause 3.2, which deals with registration of animals and states as follows:

“As soon as reasonably practical and in any event within five working days of receipt of registration forms and subject to events beyond the reasonable control of the [Claimant] (ie periods of high volumes), the [Claimant] shall furnish confirmation of registration to the Pet Keeper(s) of each animal...”

31. As the case was presented to me, there were three issues of construction.

- a) What does “maintain” mean in clause 2.1.1?
- b) Does clause 2.1.3 require each registration form to be entered within 5 working days of receipt or would an average suffice?
- c) Could periods of high volumes constitute “events beyond the reasonable control of [the Claimant]” for purposes of clause 2.1.3?

32. None of these is particularly difficult. My answers are as follows:

- a) “Maintain” requires the Claimant to keep Petlog in operation, but there are no specific requirements about opening hours, staff, service levels, or even to have a website.

- b) Each registration form has to be entered “*within five working days of receipt*” since that is what clause 2.1.3 says. The Agreement says nothing about an average, far less specifying which average (eg weekly, monthly, yearly).
- c) Yes they could: see eg clause 3.2, although I would have reached this conclusion in any event.

33. Mr Brummitt gave a further reason as to why the answer to (b) could not involve an average, which was that a stray dog could be legally destroyed or re-homed after seven days if its owner does not claim it: see the Environmental Protection Act 1990, s 149. I am not sure whether this was actually shown to be part of the factual matrix known to both sides prior to the Agreement, although it seems likely that it would have been. In any event this further argument is unnecessary.

Issue 3 - What is the correct construction of clause 6 of the Agreement?

The relevant clauses

34. Clause 6 is as follows:

“6. OWNERSHIP OF THE DATABASE AND DATA

6.1 *The Data on the Database in respect of animals’ [sic] microchipped with a Microchip manufactured/supplied by the [Defendant] shall be jointly owned by the [Claimant] and the [Defendant]. The [Claimant] will not market this data without prior agreement from the [Defendant].*

6.2 *Upon the request of the [Defendant], and with reasonable notice, the [Claimant] will make available to the [Defendant], and at no additional cost (subject at all times to such costs being in the reasonable opinion of the [Claimant] insignificant), such information forming all or part of the Data relating to the [Defendant’s] Microchips. The [Claimant] agrees only to use the Data for the purpose of reunification of animals.”*

35. The Data (with a capital D) is defined in section 1 to mean

“(a) all data incorporated into [Petlog] by virtue of [the Defendant’s] Microchip Registration form and/or supplied by the Nominated Agents on [the Defendant’s] Microchip and

(b) such further information as [the Claimant] may enter into [Petlog] in accordance with the terms of this Agreement which is linked to the data in paragraph (a) above”.

36. Clause 4 then deals with various issues relating to payment. Clause 4.1 provides that the Defendant shall pay the Claimant the sum of £2 for each registered animal. Clause 4.5 provides that the pet keeper shall pay £10 (or any revised sum) for any change of registration details, save where the pet keeper has joined “the Lifetime Membership Scheme referred to herein”. It is common ground that the Lifetime Membership Scheme referred to is Petlog Premium: see also clause 1.

The disputes

37. There were 3 disputes about the meaning of clause 6, of which the first and most important was whether “*the purpose of reunification of animals*” covered three distinct types of use by the Claimant.

- a) The first type of use consisted of emails sent to Petlog customers offering various forms of incentive to upgrade to Petlog Premium, such as a voucher for Iams dog food sold by Procter & Gamble. This was not the only such example (eg there was another relating to fireworks night) but it is representative and was fully explored in evidence so I will use this example to test the argument.
- b) The second consisted of emails sent to Petlog customers offering 20% off the Claimant’s dog tags.
- c) The third consisted of approximately 2 325 emails sent to Petlog Premium owners in around 2014 offering an insurance policy from a company called Agria. The Claimant always referred to this as a “test” or “one off trial”.

38. It will be apparent that there are two distinct legal issues in relation to this first dispute. The first is one of construction (“what does ‘*the purpose of reunification of animals*’ mean?”) and the second an issue of breach (“do these particular acts fall within that meaning?”). However these legal issues are closely related and both parties found it difficult to talk about the first issue without also considering the second. I will simply say at this stage that the term “*the purpose of reunification of animals*” is a broad one, but not so broad that it covers anything and everything which might have an influence on reunification. Put another way I accept that the Claimant’s business in relation to Petlog is about the reunification of animals generally, but it does not follow that anything and everything done in the course of that business is done specifically for the purpose of reunification of animals.

39. I do not consider that the last sentence of the definition of Database (“*The primary purpose of the database being the reunification of animals*”) casts any doubt on this conclusion. For a start, no other purpose of Petlog was identified. Secondly this sentence does not qualify the definition of the Database but merely offers a description of its purpose, so it appears superfluous even in the context of clause 1. It cannot in my judgment override the clear wording of clause 6.

40. The second dispute was whether clause 6.1 affected ownership of the database right in Petlog. I will deal with this dispute in the context of the discussion of database right.

41. The third dispute was whether there was any difference of significance between the prohibition in 6.1 (“... *will not market this data...*”) and the restriction in 6.2 (“*agrees only to use the Data for the purpose of reunification of animals*”). In my judgment there is not. Clause 6.2 is the general restriction, expressed in positive terms, and clause 6.1 is merely one instance of what is not permitted, expressed in negative terms.

Alleged Breach of the Agreement

Issue 4 – Did the Claimant act in breach of clause 2.1 of the Agreement?

42. Paragraph 10 of the Defence sets out a number of examples of alleged failures to maintain Petlog, most of which fall in the period April-September 2016. This is important because, as pointed out in paragraph 11 of the Defence, microchipping of most dogs became a legal requirement from 6 April 2016 (which was in fact pursuant to regulation 3(1) of the Microchipping of Dogs (England) Regulations 2015, SI 2015/108). Paragraph 11 goes on to

allege that the Claimant failed to meet the foreseeable increase in demand, and this was also a breach of the obligation to maintain Petlog.

43. The above pleaded complaints all relate to clause 2.1.1. In the Defendants' Particulars the Defendants introduced a claim for breach of clause 2.1.3 as well.

Did the Claimant breach clause 2.1.1?

44. The Defendant's evidence in support of its case on failure to maintain pursuant to clause 2.1.1 never got further than a limited selection of complaints which someone had found on the internet. As against that, the Claimant adduced a wealth of detailed evidence. This dealt with its work done on maintenance generally, and also explained its preparations for the introduction of compulsory microchipping and the work done thereafter: see eg Easton 2 at [33]-[40]. Ms Easton maintained this evidence in cross-examination and Mr Fry accepted he had no reason to doubt it. For instance the Claimant expected a 20% increase in overall registrations as a result but in fact there was a 350% increase by April 2016. In addition the Claimant was during this period flooded with all sorts of requests from those who were not its customers: eg those who had registered with other databases but wrongly believed the Claimant was responsible for their pet, and members of the public seeking general advice.

45. I dismiss the Defendant's case on breach of clause 2.1.1. No particular service levels are specified hence the Claimant did not breach them.

46. In any event the introduction of compulsory microchipping in April 2016 was an event beyond the reasonable control of the Claimant, as was the large amount of other requests received around that time. The effects of this would have been felt for some time before and after April 2016. I do not need to make any findings as to what the precise period actually was, although if I had found a breach of clause 2.1.1 then I would have had to.

Did the Claimant breach clause 2.1.3?

47. Whether clause 2.1.3 was breached is more difficult, mainly because all the data was presented by the Claimant in terms of rolled-up averages. For instance Ms Easton said this in her statement, giving figures which were not challenged in cross-examination:

*30. For the purpose of this litigation, the average working day turnaround for the Defendant's paper registrations in a given year was calculated by looking at the working day turnaround each month, and then coming to an average figure for the year (after appropriate rounding up or down to full days). On making these calculations, annual average paper application working day service levels relating to the Defendant, for the period 2010 – 2017, were never above 5 working days. Paper applications were entered within four days of receipt on average in 2010, 2011, 2012, 2015 and 2016; within three working days of receipt on average in 2013; within two days of receipt of average in 2014; and within 5 days of receipt in 2017. A document prepared by the Claimant summarising these averages is at **pages 28-29 JE1**. Because of the system by which incomplete batches were left over to the next day (as explained above), the averages are a conservative estimate of the service levels, since if even a few applications from one batch for a single date were not completed, then all the applications for the whole date would be counted*

as incomplete, whereas in reality the majority of applications for that date might well have been entered.

48. The emphasis is on paper applications because (as Ms Easton explained, again without challenge) applications which were made electronically were processed instantly. Ms Easton's exhibit JE1 went into more detail, and showed that the monthly average was sometimes more than 5 working days. For instance the monthly average was 6 days in March 2010 and October 2013, 7 days in June 2010 and November 2011, 8 days in each of September and November 2011, and 10 days in March 2012. In those months at least some applications must have taken longer than 5 days to process. Of course even an average (whether monthly or yearly) of only 2 or 3 days does not mean that every application was entered within 5 days during that particular month or year. It is impossible to tell. I have not overlooked Ms Easton's evidence that these figures are conservative estimates which may favour the Defendant, but equally they are the best evidence available.

49. Strictly speaking the burden of proving breach is upon the Defendant, but in this case it was the Claimant who had all the relevant information and the Claimant has chosen to present it only in the way which the Claimant believes supports its arguments. Given that the monthly average exceeded 5 working days in the above examples, I find that the Claimant must have breached clause 2.1.3 on some occasions in those months although I do not know when or how often. It may also have breached it in some months when the monthly average was less than 5 working days, but I cannot conclude that it must have done.

Issue 5 – Did the Claimant act in breach of clause 6 of the Agreement?

50. Like the parties, I will take the 2014 campaign with Iams/Procter & Gamble as typical of the first type of use referred to in paragraph [37] above. The story starts with a discussion of the proposed campaign at a meeting attended by Mr Fry and others on 11 November 2013. This was then followed by an email from Ms Fox of the Claimant to Mr Fry on 6 December 2013. The email was entitled "*Petlog Premium Incentive with Iams*" and stated inter alia as follows:

"We wish to progress with a campaign with Procter and Gamble which will support the costs of the £15 Petlog Premium with £15 worth in vouchers for Iams dog and cat food, Fabreze fabric spray and Flash antibacterial wipes. This is a great opportunity for us to promote the additional benefits of Petlog Premium members and we hope will allow us to encourage customers to update their details and provide email contacts".

51. In his email reply to Ms Fox of 6 December 2013 Mr Fry said that this looked "very good". Mr Fry also asked a consultant to the Defendant, Mr Andrew Pound, to comment on the promotion which Mr Pound did on 11 December 2013. Mr Pound suggested by email to Ms Fox that "*it is the reunification service which needs stressing as the major advantage*" of the campaign and that the Claimant should strengthen it. The Claimant then presented the final version of the campaign to Mr Fry and others at a meeting held on 28 January 2014 when it was described as a "*New Iams promotion for Petlog Premium*".

52. One point made at this last meeting deserves particular attention, which was the discussion about "*an opportunity to work closer together to promote microchipping,*

compulsory microchipping, and Petlog Premium”, referred to as PP. More specifically the notes record as follows:

“Feedback from group on PP is that there should be a commission route. [The Claimant] explained that at present as all activity for PP is driven by Petlog, we need to work to get a better uptake hence Iams offer. Once PP has reached an acceptable level to ensure long term running costs, we can revisit commission (updating of process to accommodate later in year).”

53. All of the above documents were put to Mr Fry in cross-examination, as were some of the promotional emails themselves (see eg D/36-38). For instance the example email at D/36 shows the recipient being told about the importance of keeping “*your pet’s contact details up to date*” and the advantages of upgrading to Petlog Premium. Mr Fry did not dispute the accuracy of the documents put to him in cross-examination. He also agreed that these emails were all about trying to encourage people to update their contact details, and that they were about promoting and improving reunification. I accept this evidence.

54. It follows that the first type of use complained of does not breach clause 6. That makes it unnecessary to consider whether the Defendant specifically consented to this type of use at the relevant time, although if I had to reach a conclusion on that I would have found that it did. Whether other suppliers consented to anything is neither here nor there for purposes of the Agreement, which is only between the Claimant and the Defendant.

55. I then turn to the second type of use, offering the discount of 20% on dog tags. Little time was spent on this, probably because it is self-evident that this was done to encourage the purchase of dog tags and thereby improve the chance of reunification. I find that this second type of use does not breach clause 6 either.

56. Finally I consider the third type of use, ie the emails sent to Petlog Premium customers to promote the Agria insurance policy. Little time was spent on this topic as well, the Claimant preferring to stress that it was a “one off trial” and “a failure” rather than advancing a positive case that it was permitted under the Agreement. Indeed I do not even recall being shown the emails or the insurance policy in question.

57. The Claimant accepted that the recipients of these emails may have included some registrants with the Defendant’s microchips. It did not suggest that the possibility some recipients did not have the Defendant’s microchips gave rise to any defence.

58. The Claimant ran an argument to the effect that the Petlog Premium data was the Claimant’s own data, such that it could use Petlog Premium data as it liked. In support of this argument it relied on the facts that (a) a separate transaction was necessary in order to become a Petlog Premium customer (b) an additional flag was added to the customer record accordingly, and (c) there were some technical changes to the database table. I will discuss this argument again below in relation to database right but consider it here as a matter of contract. As Mr Brummitt pointed out, the only substantial difference between Petlog Premium data and Petlog data is the additional flag to show that the customer in question has paid for Petlog Premium. The rest of the relevant data is (so far as I understand) the same. Hence although the mailshot was sent to Petlog Premium customers, it actually used the underlying Petlog data supplied by the Defendant. In the words of the definition of Data in

clause 1, it used “... data incorporated into Petlog by virtue of [the Defendant’s] Microchip Registration Form...”.

59. In my judgment this third type of use consisted of using Petlog data for purposes of marketing insurance, or at least to explore the possibility of marketing such insurance. It was not for the purpose of reunification of animals, and it did not cease to be use of Petlog data because it was only sent to Petlog Premium customers. Furthermore the fact it was sent to those who were already Petlog Premium customers underlines the fact that, unlike the first type of use, it was not done to encourage anyone to sign up to the premium service. By making this third type of use the Claimant thereby breached clause 6. Specifically the Claimant breached clause 6.2, and if (contrary to my view) clause 6.1 adds anything to clause 6.2 then it breached that too.

Alleged Database right infringement

60. The issue of database right infringement overlaps to a substantial degree with the claim for breach of clause 6. More specifically the question is whether the Defendant can establish database infringement in relation to the Iams emails or the dogtags since I have rejected the Defendant’s case on breach of contract in that respect. This cause of action does not seem to make any practical difference in relation to the Agria emails since I have already found that this was a breach of contract, but I will consider that briefly in any event.

Issue 6 – Who is the owner of the database right in the Database?

Legal context

61. I was referred to regulations 14-16 of The Copyright and Rights in Database Regulations 1997, implementing Directive 96/9/EC on the legal protection of databases, as follows:

Reg 14: The maker of a database is “... the person who takes the initiative in obtaining, verifying or presenting the contents of a database and assumes the risk of investing in that obtaining, verification or presentation ...”

Reg 15: “The maker of a database is the first owner of database right in it.”

Reg 16: “... a person infringes database right in a database if, without the consent of the owner of the right, he extracts or re-utilises all or a substantial part of the contents of the database.”

Analysis

62. The Claimant submits that it is the person that has taken the initiative and assumed the risk of investment in Petlog, each within the meaning of regulation 14. It draws attention to Mr McGuirk’s evidence about the scale of its investment, as mentioned above. Conversely it submits that the Defendant is merely one of a number of microchip suppliers which pays for services which are provided by the Claimant under the Agreement. Hence, the Claimant says, the Defendant neither takes the initiative in making Petlog nor does the Defendant assume the risk in investing all the hardware, software, and personnel needed to keep it going.

63. The Defendant submits that it supplied the relevant data to the Claimant for incorporation into Petlog. This is true, but I agree with the Claimant that this does not amount to taking the initiative or assuming the risk. I did ask Mr Brummitt to see the Defendant's figures for its investment in Petlog (ie the Defendant's equivalent of the figures put forward by Mr McGuirk) but I was not shown any.

64. In these circumstances I agree that the Claimant was first owner of the relevant database right.

65. Does clause 6.1 of the contract alter the position? I have already set out the wording of clause 6.1 and the definition of Data. It is true that clause 6.1 does not expressly refer to ownership of the database right, but this is not determinative. Furthermore the Claimant did not advance any alternative theory as to what effect or meaning clause 6.1 might reasonably have which did not involve joint ownership of database right. In my judgment the effect of clause 6.1 is that the Claimant and Defendant agreed to be joint owners of the database right in so much of Petlog as derives from data supplied by this Defendant.

66. I should explain what I mean by "so much of Petlog as derives from data supplied by this Defendant". What I mean is that Petlog uses data from a number of different suppliers. I do not see how clause 6.1 could affect the database rights of so much of Petlog as derives from data provided by *other* suppliers but equally I cannot see why the existence of other suppliers has any effect on clause 6.1 as between the Claimant and the Defendant. Since the other suppliers will have agreements in substantially the same terms and conditions (a proposition which was not disputed, and is in any event required by clause 4.4 of this Agreement) then each of these other suppliers will have supplied data to Petlog and as a result of their own equivalents of clause 6.1 they will be joint owners of the database right in so much of Petlog as derives from the data they have supplied.

67. The Claimant suggested that this would be a practically inconvenient conclusion, particularly because its microchip suppliers came and went over time. I agree that this result is practically inconvenient, but the problem does not arise because of the Database Regulations. It arises because the Claimant agreed to clauses 6.1 and 4.4 in circumstances where its microchip suppliers come and go over time.

Issue 7 – Has the Claimant extracted or reutilised a substantial part of the contents without the consent of the Defendant?

68. I have already found that the first and second types of use referred to above did not involve any breach of contract. They did not involve any infringement of database right either for the same reason, ie because they were permitted by the terms of the Agreement. In other words the joint owners of the database right both agreed to this type of use by virtue of entering into the Agreement.

69. I have already found that the third type of use (the Agria emails) did involve a breach of contract and hence it was not consented to by the Defendant. However such use only amounts to infringement of database right if the Claimant extracted or reutilised a substantial part of the contents of the relevant database (which for this purpose is not the entire Petlog database, merely that part of it in relation to which the Defendant has joint ownership). The evidence did not explore the extent to which this further requirement was satisfied and I decline to find that it is. Thus the answer to issue 7 is no.

70. As already noted above the Claimant argued that the Petlog Premium database right, as opposed to the Petlog database right, was exclusively owned by the Claimant such that sending the Agria emails to Petlog Premium customers could not infringe. I do not accept this. On the contrary it seems to me that extracting or re-utilising all or a substantial part of the contents of the relevant part of the Petlog Premium database (if such were established) still involves extracting or re-utilising all or a substantial part of the contents of the relevant part of Petlog. However since I have rejected the allegation of database right infringement for the reason set out in [69] above this does not matter.

Issue 8 – Is the Defendant estopped from denying that it has consented to the acts complained of?

Legal context

71. I was referred to *Mears Ltd v Shoreline Housing Partnership Ltd* [2015] EWHC 1396 (TCC) at [42]-[53].

Analysis

72. As a result of my findings above, this only arises in relation to the Agria emails since I have found that the uses of Petlog data in relation to both Iams and the dog tags were permitted by the Agreement. Accordingly it is not necessary to consider whether estoppel runs in relation to Iams and the dog tags.

73. The Agria emails were not put to Mr Fry and the Claimant did not try to argue that the Defendant had either consented, or was estopped from denying its consent, in relation to those emails. The answer to this issue is therefore no.

Quantum

74. In the Defence the Defendant claimed damages for

- a) loss of business reputation (see Defence paragraph [12.1]),
- b) lost profit of £45 000 due to lost sales from 1 May 2016 to 30 June 2017 (see paragraph [12.2])
- c) a “reasonable sum”, described at trial as a buy-out fee, for releasing the Claimant from its obligation under clause 6.2 (see paragraph [15])
- d) an account of 50% of the Claimant’s profits from database right infringement, alternatively a reasonable sum for releasing the Claimant from its obligations in that respect (see paragraphs [20]-[21]).

75. The Defendant was ordered to provide further particulars of its case on heads (a) to (c) in the case management conference Order: see paragraphs [1(b), (c), (d)] of that Order. In the Defendant’s Particulars the Defendant:

(a) failed to provide any information on loss of business reputation;

(b) alleged that by April 2017 the Defendant “*had lost 42 Vet clients and 43 non vet clients specifically due to Petlog’s non-performance*”;

(c) gave details “of our losses relating to Petlog non-performances for our non-vet clients”, all of which were said to have placed their last orders with the Defendant between 4th January 2016 and 29th April 2016; and

(d) gave a reasonable buyout fee of £379 000, based on a number of components.

76. Thus the Defendant did not pursue head (a), which I treat as abandoned. I now consider the remaining issues in more detail.

Issue 9 – What loss and damage (if any) has the Defendant suffered by reason of the alleged breach of clause 2.1 of the Agreement?

77. I have found that the Defendant’s case succeeds to the extent identified above, ie for those months where the average processing time was greater than five working days. However there are a number of problems involved in using the information supplied by the Defendant in its Particulars in order to quantify the loss suffered by the Defendant by reason of such breach.

78. The first and most obvious problem is that all of the Defendant’s specific figures relate to the non vet clients who are said to have placed their last orders with the Defendant between 4th January 2016 and 29th April 2016. This does not correlate to the time periods during which I have found the Claimant to be in breach of clause 2.1.3.

79. Secondly the figures given by the Defendant are not even for losses, but for the value of business given by such non vet clients to the Defendant while they were its customers. In addition a number only ever seem to have placed one order with the Defendant, so there was no pattern of established business.

80. Thirdly although Mr Fry said in cross-examination that “*these are the people we listed that said they wouldn’t come back to us because of the problems with Petlog*” he also accepted that there would be notes on the Defendant’s database which showed whether this was actually the case, and that these notes had not been provided to the Claimant. Nor was it clear to me whether, when Mr Fry was talking about “*the problems with Petlog*”, he was restricting himself to the breaches of clause 2.1.3 which I have found or whether Mr Fry meant to include all the other things which he believed were problems. I suspect it was the latter.

81. Fourthly Mr Fry sent Ms Tabrett of the Claimant an email on 7 July 2016 when there was a dispute about payment. In that email Mr Fry said this:

“We are disappointed as I am sure you are that we were unable to keep up our payment schedule.

The past 2 months have been disastrous and have left us with a huge cash flow problem. I can safely say that it was mainly due to Brexit. June was the worst month for over 3 years ...

I know it is asking a lot but ... we would like [the Claimant] to considering holding off on the account whilst we get back to a normal trading situation”.

Hence even when Mr Fry was asking the Claimant’s indulgence for late payment in July 2016, he blamed Brexit for the Defendant’s recent financial situation. He did not mention

any failure by the Claimant to process registrations or any customer complaints about the same. So even if I focus on what is in fact the wrong time period for purposes of this breach, it is not at all clear to me that any losses suffered were due to the Claimant rather than due to Brexit.

82. Finally there were no figures given for vet customers at any time. Mr Brummitt told me these figures were obtained too late for inclusion in the Defendant's Particulars. I asked him whether he was applying to amend the Defendant's Particulars so as to rely on them, but he did not make any such application.

83. In my judgment, the Defendant has failed to prove any specific loss or damage attributable to the Claimant's breach of clause 2.1.3. I will however award nominal damages in the sum of £1.

Issue 10 – Has any such loss and damage already been compensated by the Claimant's credit note of 11 May 2016

84. This issue was not pursued and I make no finding about it.

Issue 11 – What loss and damage (if any) has the Defendant suffered by reason of the alleged breaches of clause 6 of the Agreement?

Legal context

85. As noted above the Defendant's case was based on a buy out fee. This has been the subject of recent judicial consideration by the Supreme Court in **One Step (Support) v Morris Garner** [2018] UKSC 20 which held that a buyout fee is not itself the measure of the relevant loss although evidence of a buyout fee may still be relevant: see eg [95(4)], [95(10)], [100], [123]-[124] thereof. However the Claimant did not dispute that a buyout fee provided a suitable basis for quantum in this case and addressed the argument on its merits.

86. Once it is accepted that a buyout fee is a valid approach, there is now a fairly substantial body of law setting out how that is to be assessed. See HHJ Hacon of this Court in **Henderson v All Around the World Recordings** [2014] EWHC 3087 (IPEC), citing earlier decisions in **Force India Formula One Team** [2012] RPC 29, [2013] RPC 36 and **32Red v WHG (International)** [2013] EWHC 815. **Henderson** was also recently applied by Nugee J in the post-**One Step** case of **Reformation Publishing v Cruisecco** [2018] EWHC 2761 (Ch).

87. I will apply the principles set in **Henderson**, and I will summarise those which appear most important in this context.

- 1) I have to consider what sum would have been arrived at in hypothetical negotiations between the parties bearing in mind such matters as the commercial context: see **Henderson** at [18(ii)].
- 2) Where there has been nothing like an actual negotiation between the parties, it is reasonable for the court to look at the eventual outcome and to consider whether or

not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain: see [18(v)].

- 3) The negotiation is between the actual parties with their respective strengths and weaknesses, at least up to a point, and in the circumstances at the time of the hypothetical negotiation: see [19(vi)-(vii)].
- 4) Non-infringing alternatives can be taken into account, even if not as advantageous: see [19(ix)-(x)].

Analysis

The Defendant's case

88. The Defendant seeks the following:

- a) 50% of the proceeds from Petlog Premium upgrades made to customers supplied by the Defendant. This is said to come to £221 000.
- b) 3% of £3.6 million paid to the Claimant by Procter & Gamble, ie £108 000.
- c) £45 000 to reflect losses incurred by the Defendant as a direct result of the Claimant's failure to maintain the database.
- d) A percentage of the fee paid by Ceva Animal Health for marketing activities, estimated at £5 000.

89. It will be seen that none of these figures has anything to do with the Agria emails, which is the one thing for which the buy out fee would have been required. Moreover, as the Claimant pointed out more than once, the Agria emails are not specifically mentioned in the Defendant's Particulars anyway. This does not automatically mean that the figure must be zero, though. I still have to decide what the buyout fee should be on the basis of the material which is available. I also note that notwithstanding the pleading point, the Claimant's evidence did in fact address the value of the Agria emails: see below.

90. The Claimant also challenged the Defendants' figures as being correct and/or relevant in any event. In this context I find as follows.

- a) I cannot see how 50% of the proceeds of the sums paid to upgrade to Petlog Premium can be relevant.
- b) Ms Fox explained that the payment from Procter & Gamble related to a range of activities, primarily sponsorship of Crufts: see Fox [65]. She maintained this evidence under cross-examination. Mr Brummitt sought to make further arguments about Procter & Gamble in his post-trial submission but this is far too late. I accept Ms Fox's evidence.
- c) I have also rejected the Defendant's case on failure to maintain the database so it cannot be relevant here either. In addition, I am not sure where the £45 000 figure comes from.
- d) There was no evidence about the Ceva payment on either side, merely competing assertions. I make no findings about this either.

The Claimant's case

91. The Claimant relied on the following evidence, none of which was challenged:

- (a) If considering a buyout fee, the Claimant would have taken into account the potential sales revenue potential, ie the value of probable sales against the cost of the data and cost of delivery: see Fox [57].
- (b) For the Agria emails, the benefit to the Claimant would have been extremely unpredictable because insurance is normally sold at the beginning of a pet's life and this was a trial to see if a later offer could be of interest. In these circumstances, the Claimant would have suggested doing the trial without an upfront payment to see if it worked, and only if successful in generating a reasonable number of sales would the Claimant have agreed to make a payment: see Fox [61].
- (c) In fact there were no sales and only 2 contacts even bothered to follow up the offer: see Fox [51] and [61].
- (d) Furthermore the Claimant received no money from Agria in relation to these emails: see Fox [63]. There was evidence that the Claimant received money from Agria for other purposes, but it was not shown that this money had anything to do with these emails.
- (e) Petlog was not a profitable business at the relevant time anyway: see Fox [72].

92. However, the fact that point (b) was not disputed merely means this would have been the Claimant's position in the negotiations. It does not follow that I have to find that the Defendant would have agreed to that position. In the hypothetical negotiations in question I doubt that Mr Fry would have agreed to Ms Fox's suggestion of no upfront payment, precisely because of the risk that no sales might be generated.

Conclusions

93. In assessing these rival contentions I bear in mind that when the topic of commission was raised at the January 2014 meeting, the Claimant was not prepared to pay any and the Defendant accepted that position. The Claimant relied on this as demonstrating the "eventual outcome", as per paragraph [87(2)] above. However that was a different factual scenario. For a start, it does not seem that Mr Fry felt he had a choice at that meeting whereas in the hypothetical negotiations he would actually be negotiating for something which the Claimant needed to obtain. Secondly that particular discussion related to the Iams emails, not the Agria ones.

94. The Claimant's arguments on possible alternatives (see [87(4)]) were not convincing. For instance Ms Fox said she could have obtained "equivalent data" for a fee of £40 per 1000 names for use four times for email marketing. I was not shown any examples of this "equivalent data" or shown how it actually compared to the wealth of information stored on Petlog. The Claimant also suggested that it could have used advertisements at Crufts or on its website but there is no evidence as to how effective these alternatives would have been.

95. I have to bear all of the above factors in mind when assessing a notional buyout fee which would allow the Claimant to send emails offering third party pet insurance to 2 325 customers. I conclude as follows:

- a) Given the commercial context (as per [87(1)]) I agree that the figure offered would be low for the reasons given by the Claimant generally. However I do not accept that the Defendant would have agreed to a figure as low as Ms Fox suggested. At a rate of

- £40 per 1000 names for 4 mail shots, the Claimant's approach would produce a figure of less than £80 (2325 names were used, but only in 1 mail shot rather than in 4).
- b) Secondly I consider that the parties would have agreed on a combination of an upfront fee and a commission, rather than simply a commission. The Defendant would have had no incentive to agree to a commission only basis since it might end up with nothing if the campaign failed.
- c) Having regard to the parties' respective positions, as per [87(3)], I conclude that the parties would have settled on an upfront fee of £400 and some sort of commission on successful sales. The fee of £400 is sufficiently low that the Claimant (which is, after all a substantial organisation) could afford to pay it to see if the test worked and it still gave the Defendant something if the campaign failed. It also reflects the higher value of the Petlog data used in this campaign as opposed to that which could be purchased, and the fact that if the campaign were successful it could open up a new and potentially profitable line of business for the Claimant.
- d) Since there were no successful sales, I do not need to decide what level of commission would have been agreed on them. Hence the total buyout fee is £400.
96. It follows that £400 will be set against the value of the Claimant's claim.

Issue 12 – Is the Defendant entitled to an account of 50% of the Claimant's profits or damages (and if so, how much) by reason of the alleged database right infringement?

97. Since there is no database right infringement this does not arise. In any event the Claimant made no profit from the Agria emails so the profit would be zero.

Issue 13 – What interest is payable on the debt claim?

98. The Claimant relied on interest under s 1(1) of the Late Payment of Commercial Debts (Interest) Act 1998, together with compensation under s 5A thereof. By virtue of The Late Payment of Commercial Debts (Rate of Interest) Order 1998, SI 1998/240, ss 2-3, the rate of statutory interest is 8% above the official Bank of England rate. Alternatively the Claimant relied on contractual interest under clause 4.2 of the Agreement "on a daily basis at 3% over the base-lending rate of Barclays Bank plc from time to time".

Legal context

99. The 1998 Act provides as follows:

8 *Circumstances where statutory interest may be ousted or varied.*

...(2) *Where the parties agree a contractual remedy for late payment of the debt that is a substantial remedy, statutory interest is not carried by the debt (unless they agree otherwise).*

...

9 *Meaning of "substantial remedy".*

(1) *A remedy for the late payment of the debt shall be regarded as a substantial remedy unless—*

- (a) the remedy is insufficient either for the purpose of compensating the supplier for late payment or for deterring late payment; and*
- (b) it would not be fair or reasonable to allow the remedy to be relied on to oust or (as the case may be) to vary the right to statutory interest that would otherwise apply in relation to the debt.*

(2) In determining whether a remedy is not a substantial remedy, regard shall be had to all the relevant circumstances at the time the terms in question are agreed.

(3) In determining whether subsection (1)(b) applies, regard shall be had (without prejudice to the generality of subsection (2)) to the following matters—

- (a) the benefits of commercial certainty;*
- (b) the strength of the bargaining positions of the parties relative to each other;*
- (c) whether the term was imposed by one party to the detriment of the other (whether by the use of standard terms or otherwise); and*
- (d) whether the supplier received an inducement to agree to the term.*

100. In **Yuanda (UK) Co Ltd v WW Gear Construction Ltd** [2010] EWHC 720 (TCC); [2011] Bus LR 360, Edwards-Stuart J considered the above provisions. He held that “*where the rate is not obviously unreasonable and appears to have been product of genuine consensual agreement, it should not be set aside lightly*”: see [89(1)]. On the facts of that case, the Judge thought that “*a case could be made for saying that 3-4% [above base] would provide a substantial remedy for late payment*” although he was only concerned with a rate of 0.5% over base: see [90]-[91].

Analysis

101. Very little argument was directed to this. In any event I am satisfied that this case is one where the contractual rate does provide a substantial remedy with the meaning of section 9 of the Act and should not be set aside. I reject the claim to statutory interest but allow contractual interest.

Conclusion

102. In summary:

- a) The claim succeeds in relation to the sum of £123 843.03.
- b) The Claimant has breached clauses 2.1.3 and 6 to the extent indicated above.
- c) The Defendant is entitled to set off (1) the sum of £1 nominal damages for breach of clause 2.1.3 and (2) the sum of £400 by way of a buyout fee for breach of clause 6.
- d) The claimed set off for database right infringement fails.
- e) The claim for statutory interest fails. Interest is awarded at the contractual rate.

103. I will hear the parties as to the precise figure which results.