



Neutral Citation Number: [2014] EWHC 3867 (Ch)

Case No: HC13B00955

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

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

Date: 21/11/2014

Before :

MR JUSTICE NUGEE

Between :

Merck KGaA
- and -
Merck Sharp & Dohme Corp & Others

Claimant
Defendants

Henry Carr QC & Benet Brandreth (instructed by **Bird & Bird LLP**) for the **Claimant**
Geoffrey Hobbs QC & Guy Hollingworth (instructed by **Linklaters LLP**) for the **Defendants**

Hearing dates: 7-8 October 2014

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 Justice Nugee

Mr Justice Nugee:

Introduction

1. This is the hearing of a preliminary issue ordered by me on 27 February 2014 to determine, in the context of a trade mark dispute, the governing law of a contract entered into between the parties.
2. The Claimant, Merck KGaA, is a German company with its registered office in Darmstadt, Germany. It is the owner of UK and international registered trade marks which have effect in the UK for the word mark or device mark MERCK for pharmaceuticals among other goods. It complains in these proceedings of the use by the Defendants of the sign ‘Merck’ without its consent.
3. The 2nd Defendant, now called Merck & Co, Inc, is a US company, incorporated in New Jersey. It is the ultimate parent of all the other Defendants. For present purposes the relevant Defendant is the 1st Defendant, now called Merck Sharp & Dohme Corp, also incorporated in New Jersey.
4. The German and US businesses have a common heritage and there is a history of dealings between them. One of the matters relied on by the Claimant in these proceedings is an agreement dated 1 January 1970 made between the German and US businesses regulating the parties’ use of their respective trade marks throughout the world (“**the 1970 Agreement**”), together with a letter dated 24 November 1975 which augments and clarifies the 1970 Agreement (“**the 1975 Letter**”). The 1970 Agreement was itself a restatement of an agreement dated 12 September 1955 which was to similar effect (“**the 1955 Agreement**”).
5. The US entity which entered into the 1955 and 1970 Agreements and the 1975 Letter was “Merck & Co., Inc.” It is agreed that this was the 1st Defendant, which had this name until 2009 when it was re-named Merck Sharp & Dohme Corp (and the 2nd Defendant was re-named Merck & Co, Inc). I will refer to it as “**Merck & Co**”.
6. The German entity which entered into the 1955 Agreement was “Emanuel Merck offene Handelsgesellschaft” (open partnership). The 1970 Agreement was prompted by the change of this body’s name back to “E. Merck”, E. Merck being its original name. I will refer to it as “**E. Merck**”. It is not admitted on the pleadings whether the Claimant, which currently runs the German business and owns the trade marks, is technically the same entity as E. Merck, or a successor to it, but nothing turns on that for present purposes.
7. There is a dispute between the parties on the pleadings whether the 1970 Agreement and 1975 Letter are governed by German law or the law of New Jersey, and that is the subject of the preliminary issue which is in these terms:

“There be a trial of a preliminary issue to determine the governing law of the Agreement and Letter as defined in the Particulars of Claim.”
8. Although the Agreement and Letter here referred to are the 1970 Agreement and 1975 Letter, it is accepted by both Mr Carr QC, who appears for the Claimant, and Mr Hobbs QC, who appears for the Defendants, that the governing law of the 1970

Agreement and 1975 Letter must be the same as the 1955 Agreement. Thus although it is no longer in force, the argument before me has concentrated entirely on the governing law of the 1955 Agreement.

The legal principles

9. There is no dispute as to the legal principles. Since the 1955 Agreement (and the 1970 Agreement and 1975 Letter) all pre-date 1 April 1991, neither the Contracts (Applicable Law) Act 1990 nor the Rome I Regulation applies, and the question as to the governing law of the 1955 Agreement is to be determined under the English common law rules. There is an extended treatment of these in the 1987 (11th) edition of *Dicey & Morris, The Conflict of Laws* (“*Dicey*”). Rule 180 in *Dicey* reads as follows:

“The term “proper law of a contract” means the system of law by which the parties intended the contract to be governed, or, where their intention is neither expressed nor to be inferred from the circumstances, the system of law with which the transaction has its closest and most real connection.”

Subject to one point, there is no doubt that this is the appropriate test to apply. (The one point on which there is some doubt is whether at the third stage the test should refer to the *system of law* or the *country* with which the transaction has its closest and most real connection: see *Dicey* at 1193f.) The commentary to the Rule in *Dicey* at 1162f recognises that although there are in theory three stages in the analysis (express intention, inferred intention, closest and most real connection), in practice courts frequently move straight from the first to the third stage because the tests of inferred intention and close connection merge into each other. In the present case there is no expressed intention and the argument has largely revolved around the third stage.

10. Various other points, which were not disputed before me, emerge from the commentary in *Dicey*:
- (1) Renvoi has no place in the law of contract: *Dicey* at 1164.
 - (2) The issue falls to be determined at the time the contract was made. There must be a governing law at the outset of the contract, and the governing law cannot fall to be decided, retrospectively, by reference to events which are uncertain when the contract is concluded: *Dicey* at 1167.
 - (3) English law adopts a flexible method of determining the proper law: there are no rigid or narrow rules and a wide variety of circumstances are taken into account: *Dicey* at 1164.
 - (4) Although some of the older authorities purported to search for the “presumed intention” of the parties where they had not expressly or impliedly chosen the proper law (ie at the third stage), and for that purpose there was a tendency to resort to rebuttable presumptions, the use of presumptions was rejected by the Court of Appeal in *Coast Lines Ltd v Hudig & Veder Chartering NV* [1972] 2 QB 34 and it was recognised that it is not in truth a question of intention at all (see *Chitty on Contracts* (31st edn, 2012) at §30-012 n 65). The judge, putting himself in the place of the ‘reasonable man’ determines the proper law for the

parties, not by seeking to ascertain their (non-existent) intention, but by “how a just and reasonable person would have regarded the problem”, what intention “ordinary, reasonable and sensible businessmen would have been likely to have had if their minds had been directed to the question.”: *Dicey* at 1191f.

I was also referred to a number of cases for particular points that were said to be either helpful or unhelpful to one or other side’s argument, but it is more convenient to deal with those as and when they arise in discussing the arguments.

Facts

11. There was no oral evidence and the facts were entirely drawn from the surviving documentary record. As a result there was little disagreement as to what the record showed and this account is largely taken from a schedule of agreed facts, supplemented by statements in the documents which there is no reason to suppose are inaccurate.
12. The German business has a long history, having its origins in an apothecary’s shop in Darmstadt in 1668. It grew to become one of the world’s largest manufacturers of chemical and pharmaceutical products with a significant export trade.
13. The US business had its origins in 1889 when George Merck (a son of one of the members of the German family that were then partners in E. Merck) and Theodor Weicker established a partnership in New York called Merck & Co. Although E. Merck did not have any formal ownership interest in the firm, it lent George Merck the funds to make his initial capital contribution and in return he agreed to pay them his share of the profits, so in practice it had an economic interest in the firm. In 1908 George Merck, who had become a US citizen in 1902, incorporated the US business as Merck & Co, Inc, a New York corporation, the stock being owned by the partners in E. Merck (of whom George was then one). In or about 1917, after the entry of the US into the First World War, the US Alien Property Custodian took steps to seize the company and George Merck voluntarily turned over the shares held by German members of the Merck family, amounting to 80% of the stock. After the end of the war, George Merck bought these interests back, and since then the two businesses have been independent of each other. In 1927 the New York corporation transferred its business to a New Jersey corporation, also called Merck & Co., Inc. In 1934 there was a corporate reorganisation as a result of which the business was transferred again, this time to the 1st Defendant, another New Jersey corporation and again called Merck & Co., Inc. Nothing for present purposes turns on the identity of the various US entities which have successively owned the US business, and I will use “**Merck & Co**” to include not only the 1st Defendant but also its predecessors where appropriate.
14. Prior to the First World War, Merck & Co acted as a selling agent for E. Merck. During the war, Merck & Co expanded its own manufacturing facilities; and, taking advantage of the allied blockade of Germany, it also obtained a considerable export business in South and Central America. After the war however, it allowed the trade in those countries to be resumed by E. Merck; and from the end of the war to 1932 the parties enjoyed an informal co-operation under which the use of the word ‘Merck’ in connection with the business of Merck & Co was almost exclusively confined to the

US and its territories and dependencies and Canada, and the use of the word ‘Merck’ in connection with the business of E. Merck was almost exclusively confined to the rest of the world, except that both parties had business in Cuba, the West Indies and the Philippines, where they had each used the word ‘Merck’.

15. That formed the background to an agreement made between E. Merck and Merck & Co dated 17 November 1932, known as “**the Treaty Agreement**”. It formalised the existing arrangements and in effect divided up the world between them. E. Merck recognised the right of Merck & Co to the exclusive use of the word ‘Merck’ in the US, its territories and dependencies and Canada, and the right to use the name jointly with E. Merck in Cuba, the West Indies and the Philippines. Merck & Co recognised the right of E. Merck to the exclusive use of the word ‘Merck’ in the rest of the world. If either party developed a ‘specialty’ (a product that has specific application), it agreed to offer the other party rights to sole distribution and/or exclusive manufacture in the territory allocated to the other in return for sharing the profits; the parties also agreed to exchange technical and market information, and other information useful to their businesses. The Treaty Agreement was signed by George W Merck (the son of George Merck, who had succeeded his father as president in 1926) for Merck & Co, and Dr Karl Merck, a member of the firm, for E. Merck.

16. Clause 9 of the Treaty Agreement contained an unusual double law and jurisdiction clause under which if Merck & Co instituted proceedings arising out of the agreement against E. Merck, such proceedings should only be brought in Germany, and:

“in such an event, the interpretation and construction of the terms of this agreement and the rights and liabilities of the parties, arising therefrom, as well as their remedies, shall be governed and determined solely in accordance with the law of Germany.”

If however E. Merck instituted any such proceedings against Merck & Co, such proceedings should only be brought in a court of competent jurisdiction of the State of New Jersey or the US District Court for the District of New Jersey, and:

“in such an event the interpretation and construction of the terms of this agreement, and the rights and liabilities of the parties arising therefrom, as well as their remedies, shall be governed and determined solely by the laws of the State of New Jersey.”

This clause had been suggested by E. Merck. Merck & Co took advice from their New York lawyers, then called Hughes, Schurman & Dwight, on it. The advice, which they shared with E. Merck, was that while the exclusive jurisdiction provisions would not be enforceable in the US, the New York lawyers were inclined to think that the choice of law provisions would be effective in America, and that they had been told by a German lawyer that such provisions were enforced in German law.

17. In October 1943 the US Department of Justice filed a civil complaint (“**the 1943 proceedings**”) in the US District Court for the District of New Jersey in the name of the USA as plaintiff against three defendants, namely: Merck & Co; Powers-Weightman-Rosengarten Corporation (a wholly-owned subsidiary of Merck & Co); and George W Merck. E. Merck and Dr Karl Merck, and certain other individuals

connected with the firm, were named as co-conspirators in the complaint, although not made parties to the suit.

18. The suit was brought under the Act of Congress of 2 July 1890, entitled “An Act to Protect Trade and Commerce Against Unlawful Restraints and Monopolies”, which is commonly known as the Sherman Anti-Trust Act or Sherman Act. Section 1 of the Act declared illegal:

“Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations”

and made the persons making any such contract or engaging in any such combination or conspiracy guilty of a misdemeanour. Section 4 of the Act provided:

“The several circuit courts of the United States are hereby invested with jurisdiction to prevent and restrain violations of this act; and it shall be the duty of the several district attorneys of the United States, in their respective districts, under the direction of the Attorney-General, to institute proceedings in equity to prevent and restrain such violations....”

Section 8 of the Act provided:

“That the word “person” or “persons”, wherever used in this act shall be deemed to include corporations and associations existing under or authorized by the laws of either the United States, the laws of any of the Territories, the laws of any State, or the laws of any foreign country.”

19. The complaint alleged that the Treaty Agreement was an unlawful contract in restraint of trade in breach of section 1 of the Act, its purpose being to effect a complete division of trade territories and to suppress all competition between the parties; it also alleged that the arrangements between the parties (both before and after 1932) constituted an unlawful combination and conspiracy to restrain competition between them. Paragraph 30 of the complaint specifically alleged that the parties had engaged in the conspiracy “in part within the District of New Jersey”.
20. On 6 October 1945 Judge Forman, a Judge of the District Court sitting in Trenton, New Jersey, issued a Final Judgment in the 1943 proceedings (“**the 1945 Decree**”). The Decree was by consent of all parties and without trial or adjudication of any issue of fact or law, and without admission by the defendants (Merck & Co and Powers-Weightman-Rosenstock Corporation, the action being dismissed as against George W Merck). Among other provisions, it decreed that the Treaty Agreement was thereby cancelled, and restrained the defendants from the further performance of any of its provisions, and from adopting or following any course of conduct for the purpose, or with the effect, of reviving or reinstating any of them. By section VI(C) it also restrained the defendants from:

“Reserving or undertaking to reserve for E. Merck, or any person or persons designated by E. Merck, any right or immunity to use, or to control the use of, in any market or country, any trade-mark, trade-name, or other designation adopted by either defendant for any chemical or pharmaceutical

product.”

Section VII required the defendants to file with the Department of Justice notice of their intention to make any agreement with E. Merck relating to or affecting the business policy of either defendant. Section IX retained jurisdiction of the cause for the purpose of enabling any of the parties to apply to the Court for, among other things, amendment or modification of the terms of the Decree.

21. After the Second World War, relations were slowly restored between the parties. In March 1946 Merck & Co applied to the US authorities for a license permitting them to write to the managers of E. Merck (in reply to letters they had received) informing them that the Treaty Agreement had been cancelled by the 1945 Decree. Permission was granted in June and a copy of the Decree delivered to E. Merck in August 1946.
22. In October 1948 Merck & Co received detailed written advice from their New York lawyers (now called Hughes, Hubbard & Ewing) as to the legal position with respect to possible future relations with E. Merck. This dealt with the position under three heads, namely (1) the laws and regulations of the US Government and the US Military Government in Germany, including the Trading with the Enemy Act 1917, and Law No 56 of 1947 issued by the US Military Government in Germany, which introduced many of the principles of the US antitrust laws into the American zone, and to which E. Merck was subject (Darmstadt being in the American zone); (2) US antitrust legislation including the Sherman Act; and (3) the effect of the 1945 Decree. The conclusion of the advice was that Merck & Co was in a difficult and delicate legal position, and that it was of the utmost importance that all officers, agents and representatives of Merck & Co and E. Merck should have constantly in mind the provisions of the 1945 Decree and the applicable statutes and regulations.
23. Shortly afterwards Mr Carl Anderson, an attorney and the Assistant to the President of Merck & Co, made the first of three visits to Darmstadt during a trip to Germany in October and November 1948. He met Dr Karl Merck and other senior E. Merck personnel, read to them Hughes, Hubbard & Ewing’s letter, and left a copy of it with them; by his second visit two days later, they had had a German translation made of it. Mr Anderson said in his report to the Merck & Co Board in December 1948 that:

“I felt at the conclusion of these two meetings that E. Merck had quite a clear understanding of the legal situation arising out of the Decree and the anti-trust laws.”
24. In June 1949 George W Merck, accompanied by Mr Anderson, visited the Darmstadt plant, and met Dr Karl Merck and others. He told them that his personal responsibility as president of Merck & Co made him doubly anxious that any transactions between the two companies should be completely correct and in accordance with the 1945 Decree. Mr Anderson’s report of the meeting indicates that E. Merck by then had a German translation of the 1945 Decree.
25. In June 1950 representatives of E. Merck (Dr Karl Merck and Dr Otto Dalmer) visited Merck & Co in Rahway, New Jersey. The purpose of the meeting was to advise them of “the position that [Merck & Co] was taking abroad with respect to the use of the name ‘Merck’ in trade-mark and other senses.” This was done by referring to further

advice from Hughes, Hubbard & Ewing to the effect that in countries where Merck & Co had existing trade-mark rights to the name 'Merck', it should enforce those rights against all comers, including E. Merck; and that in countries where E. Merck had the trade-mark rights to the name 'Merck', Merck & Co should not attempt to use the name 'Merck' in a trade-mark sense but would sell products under its corporate name unless prohibited by some local law. The E. Merck representatives indicated that they understood perfectly the position that would be taken by Merck & Co; and at the conclusion of the meeting it was recognised that both companies would stand on their trade-mark rights in various parts of the world and where conflict arose the matters would be determined through the courts or other official channels rather than by direct agreement between the two concerns.

26. By 1955 there had been litigation between the parties in a number of countries. A report in January 1955 to Dr Harms of E. Merck, in anticipation of a forthcoming trip by him to the USA, listed disputes in: Switzerland (where E. Merck had succeeded in stopping the Swiss Merck & Co agency from using the name 'Merck' as a trade mark); Italy (where E. Merck had obtained a judgment, which Merck & Co had recently appealed, nullifying Merck & Co's registration of the 'Merck' name); Cuba (where after lengthy legal proceedings Merck & Co's attempt to prevent E. Merck from using the name 'Merck' had failed); India (where there were two cases running); and various other countries (Hong Kong, Ceylon, Australia, Siam, Canada, Ecuador and Costa Rica).
27. Dr Karl Merck and Dr Harms duly visited Merck & Co in New York, where they raised a number of trade mark objections. Mr Horan (Associate General Attorney of Merck & Co) brought up tentatively the possibility of the parties attempting to settle their trade mark conflicts if the US Department of Justice would approve: Merck & Co would seek the Department's prior approval before undertaking any negotiations. Dr Karl Merck and Dr Harms indicated that litigation was a useless expense and that they would be quite willing to discuss the problem to see if a reasonable settlement could be reached.
28. After investigating the matter, Merck & Co's legal department produced a draft letter dated 1 June 1955 addressed to E. Merck proposing a settlement, but in accordance with the indication given by Mr Horan, they wished to have the Department of Justice's approval before sending it. On 2 June 1955 therefore Mr Bartenstein (General Attorney of Merck & Co) and Mr Horan went to Washington together with Mr Schell of Merck & Co's New York lawyers (by now called Hughes, Hubbard, Blair & Reed) to meet Mr Kilgore (Chief of the Judgment Section of the Anti-Trust Division of the Department of Justice) and his associate Mr Freeman to discuss the proposed letter. They had a lengthy meeting, which Messrs Kilgore and Freeman opened by stating their conviction that the 1945 Decree had been too favourable to Merck & Co and had been accepted by the Government only because "it had been unable to obtain jurisdiction over E. Merck." Otherwise the Government would have insisted on much more comprehensive provisions as to trade-mark use, such as requiring that one or both parties give up all use of 'Merck' as a trade-mark. Their preliminary view was that the letter was all right; they said they found it refreshing that former defendants in an anti-trust proceeding were trying to do something that was in the direction of being more competitive.

29. On 29 June the Department wrote to Mr Schell indicating that they would not object to the execution of the proposed letter agreement:
- “provided that an appropriate order is entered upon the stipulation of the parties to the effect that notwithstanding the terms of Subsection (C) of Section VI of the Judgment the defendant is authorized to execute and carry out the agreement.”
30. On 15 July Merck & Co’s letter, signed by Mr Anderson, was sent to E. Merck. It proposed settling the existing disputes as follows: (i) in countries where E. Merck had prior rights in ‘Merck’, Merck & Co would add some appropriate designation such as “Rahway, New Jersey, USA”, and E. Merck would confirm that it had no objection to the use of the corporate name ‘Merck & Co., Inc.’ with such a geographical identification; (ii) Merck & Co would withdraw applications, cancel existing registrations and discontinue all use of the trade-marks MERCK, MERCK CROSS, and MERCKMERCKMERCK outside of the US and its possessions, Canada, Cuba and the Philippines; and (iii) E. Merck would agree that ‘MERCK-SHARP & DOHME’ as a trade-mark was not confusingly similar to any of its ‘Merck’ trade-marks, and would not object to its use and registration as a trade-mark. (Merck & Co had merged with Sharp & Dohme Inc in 1953.) Mr Anderson explained that the proposal had been taken up with the US Department of Justice and they had indicated they would approve such an agreement. He suggested that he, Mr Connor (Vice-President and General Manager of the Merck Sharp & Dohme International Division) and Mr Horan visit Darmstadt, to answer any questions on the proposal, in September when they were due to be in Europe.
31. Messrs Connor, Anderson and Horan arrived in Darmstadt on Friday 9 September 1955 and met Dr Karl Merck and Dr Harms that afternoon. Both Dr Merck and Dr Harms spoke excellent English and the negotiations were conducted in English. Mr Anderson referred to the progressively increasing number of places in which the parties had trademark conflicts and that they were now engaged in litigation which was continually becoming more annoying and expensive. Mr Horan explained the process of obtaining the prior approval of the Department of Justice and distributed copies of the Department’s letter of 29 June. He said that Merck & Co expected of course to submit any agreement reached to the Department for its approval; and that whether or not the parties were able to reach an agreement, Merck & Co’s relations with E. Merck must continue to be governed by the 1945 Decree. Mr Connor explained some of the business background, in particular that before Merck & Co had merged with Sharp & Dohme, it did not have an organisation of any size outside the US and Canada, but Sharp & Dohme did have a large foreign operation, and Merck & Co had been and were now engaged in a process of expansion overseas.
32. E. Merck had certain proposals of its own and by the end of the day the differences between the two sides’ proposals had been identified. One of these was that E. Merck wanted an agreement that it could use its firm name and corporate name in the US and Canada: Merck & Co had not proposed to include any provisions as to the US and Canada. Another was that E. Merck wanted a special provision for Germany recognising E. Merck’s trademark rights in Germany; it was willing to explicitly recognise Merck & Co’s position in the US and Canada in return.

33. Discussions resumed on Saturday 10 September when agreement appeared to be reached on all the outstanding issues; there was then a drafting meeting on the morning of Monday 12 September (at which, however, E. Merck's in-house counsel, Dr Vogt, proposed a number of modifications). The actual agreement was finalised and signed on Monday afternoon. Mr Horan's note of the meetings explains that Dr Vogt had initially indicated that the points in controversy need not be resolved as this was a draft that could be reviewed at leisure, but

“in view of the change in position he had shown on a number of points since the definite agreements reached at our Saturday conference, we felt it highly desirable to have the agreement finalized and signed just as promptly as possible.”

34. It was therefore agreed that it be signed that day, and it was signed, and dated 12 September 1955, before the Americans left Darmstadt. However as executed it contained a clause, clause 12, providing for it to be approved by the US authorities before it became effective, as follows:

“It is understood that Merck & Co. will submit this agreement to the United States Department of Justice for review and with the concurrence of the Department will seek an appropriate Court order that Merck & Co. is authorized to execute and carry out this agreement. This agreement shall not become effective until such a Court order has been entered.”

I give the text of the 1955 Agreement below, but in very brief summary: in the USA and Canada it allowed E. Merck to use its firm or corporate name, so long as geographically identified with Germany, but not to use 'Merck' as a trade mark; conversely in Germany Merck & Co could use its corporate names, so long as identified with the USA or Canada, but not 'Merck' in any trade mark; in the rest of the world (other than Cuba and the Philippines) Merck & Co could again use its names (so long as geographically identified) and would discontinue use of 'Merck' as a trade mark, but could use 'Merck-Sharp & Dohme' as both a name and a mark; and in Cuba and the Philippines both parties recognised the concurrent right of the other to use 'Merck' both as a name and a mark. In contrast to the Treaty Agreement, it contained no provision referring to either jurisdiction or governing law.

35. Merck & Co then proceeded to obtain the necessary approval. On 23 September Mr Anderson wrote to Dr Karl Merck saying that arrangements had been made to discuss the agreement reached at Darmstadt with the Department of Justice and that they would of course let him know promptly the result of the conversation. On 28 September Messrs Bartenstein, Horan and Schell went back to Washington for another meeting with Mr Kilgore and Mr Freeman. Neither had any objection to the agreement; Mr Kilgore said that it would take a day or two to clear through the Department but he anticipated no problems, and suggested that an appointment be made with Judge Forman to obtain an appropriate order. On 14 October E. Merck wrote to Merck & Co asking to be informed when the Court order might be expected to be issued. On 17 October Merck & Co's New Jersey attorneys filed a motion in the District Court for the District of New Jersey for an order modifying the 1945 Decree so as to permit Merck & Co to execute and perform the agreement. The motion recited the fact that it was not clear whether execution and performance of the

agreement were prohibited under the 1945 Decree, particularly subsection VI(C); and that the plaintiff (the USA) had not objected to the motion.

36. On 18 October Mr Bartenstein wrote to Mr Kilgore confirming certain points which had been discussed at their meeting, namely that since the 1945 Decree Merck & Co had made a vigorous and sustained effort to obtain the right to use ‘Merck’ as a trademark throughout the world. This had extended to more than 60 countries outside the US and Canada, but it had only secured concurrent rights with E. Merck in 8 “relatively unimportant countries”; in 10 other countries, again “relatively unimportant”, it held registrations which counsel had advised were subject to attack and cancellation by E. Merck; throughout the rest of the world Merck & Co had either been unable to obtain rights in the trademark ‘Merck’ or was engaged in litigation with E. Merck.

37. The motion came before Judge Forman, by then Chief Judge, sitting in Trenton, on 24 October 1955. Mr Schell explained the background to the Court. He said that Merck & Co had not been in foreign commerce until just after the First World War, and that after that war they went out for a short while into the foreign markets but it proved disastrous. After the Second World War, Merck & Co got more actively into foreign business and it now had a tremendous foreign business accounting for a large percentage of its sales throughout the world. Mr Horan then explained that after the 1945 Decree Merck & Co adopted a policy of using ‘Merck’ as a trade-mark or name in its export and foreign business to the greatest extent possible and undertook an effort to acquire trade-mark rights, that effort extending to at least 60 countries. He continued:

“In the post-war period, as the Germans once again moved into export, they began to attack our use of ‘Merck’. Being the older firm and having been primarily an export firm, they held trade-mark registrations in just about every country in the world. They used those to attack our right and our corporate name, Merck & Co., Inc. They tried to stop us from any use of ‘Merck’ outside of the United States and Canada...

We have, at the moment, pending the settlement of this agreement, about a dozen countries in which we are litigating with E. Merck. The pattern is clear however, and I think our chances of winning are fairly slender, and we have already lost in some...

We have had, in the last few years, a merger with Sharp & Dohme which resulted in our naming the export branch of our business, Merck-Sharp & Dohme International.

We wanted to register Merck-Sharp & Dohme as a trade-mark but found we were prevented by the E. Merck registrations.”

He then explained the effect of the agreement.

38. Mr Freeman then addressed the Court for the Government, confirming that they did not object for the very simple reason that they thought the agreement fostered competition. He said among other things that:

“the firm name can now be used by either firm in the whole world, and it is in our opinion the great advantage”

and that the 1945 Decree did not impose an affirmative duty on Merck & Co to go ahead after the war and go into 50 or 60 other countries

“but, of course, Germany had the prior use. American Merck was bound to lose in most instances.”

39. Judge Forman approved the application without hesitation, saying:

“From what both of you gentlemen have placed before me, it is apparent to me that here was a situation where we think competition could only be accomplished under these marks and corporate names by some give to the people who apparently have a very long and vested interest in the name ‘Merck’ and from the fringe where I sit I think you have come out of the situation on the long end because I should think the Germans with their hold on this name could beat you in practically every country except on home grounds perhaps, and I have no hesitancy in approving a modification of Section VI(C) of the former decree under the power reserved under Article IX of the former decree, so if you have the papers ready I will be glad to sign them.”

It is apparent from the transcript that he did not consider it necessary to be taken through, or study, the detailed provisions of the 1955 Agreement (indeed he said he understood that there was no necessity for him to read them), and that there was no discussion or consideration in court as to what law might govern it.

40. At the end of the hearing Mr Schell drew the judge’s attention to the fact that the agreement had been executed but clause 12 provided that it should not become effective until approved by the Court, and added:

“The reason for being presumptuous enough to have it signed was that the boys were getting in a good trading position and that was deteriorating as the hours went by, so they thought they had better step up and sign it.”

41. The Order itself, dated 24 October 1955 (“**the 1955 Order**”), is as follows:

“Defendant Merck & Co., Inc., having moved this Court for an order authorizing, notwithstanding the provision of subsection VI(C) of the Final Judgment of this Court of October 6, 1945, the execution and performance of its agreement with Emanuel Merck offene Handelsgesellschaft, a copartnership of Darmstadt, Germany, dated September 12, 1955, a copy of which agreement is attached and marked Exhibit A, and plaintiff having waived notice of said motion and having no objection to said motion, and due deliberation having been had thereon, it is

ORDERED that said Final Judgment be modified so as to permit defendant Merck & Co., Inc. to execute and perform the said agreement.”

42. On 25 October Mr Horan sent a telegram to Dr Vogt informing him that a Court order

authorising Merck & Co to execute and perform the agreement had been entered the previous day and that the agreement was effective as of 24 October. This was followed by a letter of 27 October from Mr Connor to Dr Karl Merck confirming the position (adding a joking reference to some personal regret that the Court had not found some minor problem which would have required him and his team to travel once more to Darmstadt so that they could again enjoy the warm hospitality that E. Merck had shown them).

43. Since it is agreed that what is in issue is the governing law of the 1955 Agreement, and that this cannot be affected by subsequent events, it is not necessary to detail the later history. Briefly, in 1969 E. Merck wrote to Merck & Co to say that they did not appear to have ever received a copy of the 1955 Order and asking for that and other documents; these were supplied to them. In 1970 E. Merck informed Merck & Co that it had changed its name back to “E. Merck” rather than “Emanuel Merck”: this led to the 1970 Agreement (which although dated 1 January 1970 was actually executed towards the end of the year), which restated the 1955 Agreement with minor amendments to reflect the change of name. Before executing it Merck & Co sent the proposed amendments to Mr Kilgore, who agreed that the changes were formal only and did not require approval by the Court. In 1975 the parties agreed a letter which dealt with some practical matters such as letterheads, visiting cards, journal advertising and the like. Mr Schell (now of Hughes, Hubbard & Reed) advised Merck & Co that as the interpretations contained in the letter were entirely consistent with the objectives of the 1970 Agreement, it was not in their view necessary to obtain prior clearance from the Department of Justice but they would recommend filing a copy with the Department after execution. Finally in 2010 Merck & Co (ie the 2nd Defendant) wrote to Merck KGaA (the Claimant) indicating that it intended to seek a termination of the 1945 Decree on the ground that it no longer served the public interest. No action was required of Merck KGaA and the letter was for information only. On 21 September 2011, the US Government having no objection, an Order was duly made by a Judge of the District Court for the District of New Jersey terminating the 1945 Decree.

The 1955 Agreement

44. I must now set out the terms of the 1955 Agreement. It is relatively short and I will set it out in full:

“AGREEMENT made September 12, 1955 between Merck & Co. Inc. of Rahway, New Jersey, USA, and Emanuel Merck offene Handelsgesellschaft of Darmstadt, Germany.

Definitions:

- 1.) a) Merck & Co. as used herein shall mean Merck & Co. Inc. and its subsidiaries and affiliates and E. Merck shall mean Emanuel Merck offene Handelsgesellschaft and its subsidiaries and affiliates.
- b) Subsidiaries and affiliates include any corporation, company, firm or individual subject to the control of one of the parties including particularly Merck & Co. Limited, Montreal, in the case of Merck &

Co. and E. Merck A.G., Darmstadt, in the case of E. Merck.

- c) Germany as used herein means the territory of the Federal Republic, of Greater Berlin and of the German Democratic Republic to include such other territories as may belong to any of the above or to a future reunited Germany at the effective date of their political union. Such other territories shall include only those which belonged to Germany in 1935.
- d) The United States as used herein means the United States and all its present territories, possessions and dependencies, including but not limited to Alaska, Hawaii, Puerto Rico, Panama Canal Zone and Virgin Islands.
- e) All other countries as used herein means all countries of the world other than the United States, Canada, Germany, Cuba and the Philippines.

United States and Canada.

- 2.) a) Merck & Co. will not object to the use in the United States and Canada by E. Merck of “Emanuel Merck offene Handelsgesellschaft” or “E. Merck A.G.” as all or part of a firm-name or corporate name provided such names are geographically identified with Germany as follows: “Emanuel Merck offene Handelsgesellschaft, Darmstadt, Germany” and “E. Merck A.G., Darmstadt, Germany” all words being given equal prominence.
- b) E. Merck recognizes the exclusive right of Merck & Co. to the use of the trade-mark Merck in the United States and Canada and in such countries will not use or attempt to acquire rights in any trade mark containing Merck.

Germany

- 3.) a) E. Merck will not object to the use in Germany by Merck & Co. of
 - (i) Merck & Co. Inc. or Merck & Co. Limited as all or part of a firm name or corporate name provided such names are geographically identified with the United States or Canada as follows: “Merck & Co. Inc., Rahway, N.J., U.S.A.”, and “Merck & Co. Limited, Montreal, Canada”, all words being given equal prominence.
 - (ii) “Merck-Sharp & Dohme” as all or part of a firm name, corporate name or name of a corporate subdivision, provided such names are geographically identified with a country other than Germany, all words being given equal prominence.
- b) Merck & Co. recognizes the exclusive right of E. Merck to the use of the trade-mark Merck in Germany and in such country will not use or

attempt to acquire rights in any trade mark containing Merck.

All other countries.

- 4.) In all other countries E. Merck recognizes that “Merck-Sharp & Dohme” as a trade-mark or name is not confusingly similar to any of the trade marks or names used or owned by E. Merck and E. Merck will not object to Merck & Co.’s use and registration of Merck-Sharp & Dohme as all or part of a trade-mark, trade-name or corporate name. When requested E. Merck shall so state in writing. The embellishments of design of such trade marks shall not imitate marks owned by E. Merck.
- 5.) In all other countries E. Merck will not object to the use by Merck & Co. as all or part of a firm-name or corporate name of “Merck & Co. Inc.” used in association with words such as “Rahway, N.J., U.S.A.” which identify it geographically with the United States or “Merck & Co. Limited” used in association with words such as “Montreal Canada” which identify it with Canada, all words being given equal prominence.
- 6.) In all other countries Merck & Co. recognizes that E. Merck is entitled to use the word Merck or combinations such as EMerck as a trade-mark or name provided that any such marks or names adopted in the future shall not be confusingly similar to marks or names adopted or used by Merck & Co. under Paragraphs 4 and 5 above. When requested Merck & Co. shall so state in writing.
- 7.) In all other countries Merck & Co. shall promptly and in any event no later than three years after the effective date of this agreement cancel all existing registrations, withdraw all applications and discontinue all use of the trademarks Merck, Merck Cross and MerckMerckMerck.
- 8.) In all other countries Merck & Co. shall promptly and in any event no later than three years after the effective date of this agreement discontinue all use of the following corporate names:

Merck (Pan America) Inc.,

Industrias Farmacéuticas Merck (Norte Americana) S.A.

Merck & Co. (Great Britain) Ltd.
- 9.) a) In Mexico and Argentina Merck & Co. shall within three years after the effective date of this agreement or three years after being notified that E. Merck has reacquired its trade-mark and trade name rights in Merck in Mexico and Argentina, whichever is later, discontinue all use of the corporate name Merck (North America) Inc.. E. Merck expects that its former trade-mark and name rights in Mexico and Argentina will be returned to it in the immediate future.

- b) It is understood that the requirements of paragraphs 8 and 9(a) hereof will be fulfilled wherever the words “Merck-Sharp & Dohme” are substituted for the word “Merck”.
- 10.) Cuba and the Philippines.
- Merck & Co. and E. Merck each recognize the concurrent right of the other to the unrestricted use of Merck as a trade name and as a trade-mark in Cuba and the Philippines; each will take appropriate steps to distinguish its goods from those of the other and avoid confusion.
- 11.) Merck & Co. and E. Merck will cooperate in the prompt termination of all litigation now pending between them involving trade-marks or trade names containing Merck. Each party will defray all expenses previously incurred to include such expenses as have already been paid or are still to be paid in compliance with a court decree already issued.
- 12.) It is understood that Merck & Co. will submit this agreement to the United States Department of Justice for review and with the concurrence of the Department will seek an appropriate Court order that Merck & Co. is authorized to execute and carry out this agreement. This agreement shall not become effective until such a Court order has been entered.”

Federal law or State law

45. Mr Hobbs put at the forefront of his argument the fact that the 1955 Agreement was made against the background of the 1943 proceedings under the Sherman Act, and specifically the 1945 Decree. This governed the whole question of what could and could not be done by agreement between E. Merck and Merck & Co in relation to trade marks, and made it essential, as recognised by clause 12 of the 1955 Agreement, to obtain Department of Justice approval and an appropriate Court order, before the 1955 Agreement could be lawfully entered into.
46. He said it was obvious, and plain to both parties, that when clause 12 referred to “an appropriate Court order”, this meant an order authorising the agreement under the 1945 Decree made in the District Court for the District of New Jersey. I agree: Merck & Co were of course alive to the requirement to get approval in accordance with the 1945 Decree, and it is clear from the history set out above that E. Merck were as well. In August 1946 they had been sent a copy of the 1945 Decree. By October 1948 they had made a German translation of it, and had been given a copy of Hughes, Hubbard & Ewing’s letter of advice explaining the effect of it and the utmost importance of having its provisions in mind. At the first negotiation meeting on Friday 9 September 1955, Mr Horan gave them a copy of the Department of Justice’s letter of 29 June 1955 referring to the need to obtain a Court order authorising the agreement despite the terms of the 1945 Decree. I do not think E. Merck can have been in any doubt that what was required was an application for authorisation under the terms of the 1945 Decree made in the District Court for the District of New Jersey.

47. Mr Hobbs submitted that in the light of this, the system of law with which the 1955 Agreement had its closest and most real connection was the law of New Jersey. The 1945 Decree was necessarily made under some system of law; and if one asked what system that was, it was the law of the US as operating under the Sherman Act in the District of New Jersey, or in other words the law of New Jersey where the Court sat. Mr Carr had a number of answers to this submission, but one was that in any event the Court concerned was a US District Court, not a New Jersey state court, and the law it was applying was US federal law not the law of New Jersey. The law for which the Defendants contended was specifically the law of New Jersey, and since the District Court was not applying this law but federal law, the background of the 1943 proceedings and the 1945 Decree, and the requirement under clause 12 to go back to the Court for an appropriate Court order, were all irrelevant in any event. They did not point to any connection with New Jersey law.
48. It is convenient to take this point first. It ultimately assumed some importance at the hearing, but appears to have come as something of a surprise to the Defendants, not having been canvassed in the pleadings or in correspondence and first being referred to in Mr Carr's skeleton argument where it was supported by brief reference to two US authorities. Mr Hobbs submitted, on instructions, that Mr Carr was wrong in his understanding of the relevant US law, and when I said that I could not be expected to resolve that issue (which in this court is of course a question of fact) without the necessary materials to do so, he produced overnight a report from Professor Dennis Patterson, a Professor of Law at Rutgers University, New Jersey ("**Patterson 1**"). Mr Carr did not object to its admission on terms that he could file his own expert evidence in answer, which he did, and after the hearing concluded I therefore received a report from Mr Jyotin Hamid, a partner in Debevoise Plimpton LLP, New York ("**Hamid**"); and in due course a reply report from Professor Patterson ("**Patterson 2**").
49. I am very grateful for the lucid and helpful explanations they have each given, produced at very short notice. It is apparent however from the materials they have referred to that the question of the law applied in federal courts, and the relation between federal law and state law, is a large, complex and constitutionally important subject on which whole books have been written and which in some respects is the subject of academic controversy. I have been given only the briefest of introductions to this topic and have not had the benefit of the experts' oral evidence or of any cross-examination. I am conscious that in these circumstances my understanding of the subject is likely to be limited and I may well have failed to grasp some of the complexities. With apologies to those who inevitably have a much deeper knowledge of the subject, I will try and do the best I can with the material I have been shown.
50. On that material my findings are as follows. There is in the US a separation of powers between the federal government and the government of the several States. Consistently with this there is a federal court system which is separate from the court systems of each of the several States: *Hamid* para 8. Most state courts are courts of general jurisdiction (jurisdiction here referring to subject matter jurisdiction): *Wright & Kane, Law of Federal Courts* (6th edn) §7. The federal courts by contrast are not courts of general jurisdiction but of limited jurisdiction: *ibid*. The US District Courts are the trial courts of the federal court system: *Patterson 1* para 19, *Hamid* para 12. There are 94 federal judicial districts, including at least one district in each State:

Patterson I para 19. In some States, of which New Jersey is an example, there is only one district: thus the 1943 proceedings took place in the District Court for the District of New Jersey. In others there is more than one district: Pennsylvania for example has three districts, Eastern, Middle and Western. The federal appellate courts (other than the US Supreme Court) are the US Courts of Appeals, divided into several Circuits. The relevant Court of Appeals for New Jersey is that for the Third Circuit: *Hamid* para 12.

51. Generally speaking, federal courts have three types of subject matter jurisdiction: (i) federal question jurisdiction over disputes arising under federal law; (ii) supplemental jurisdiction over questions arising from the same underlying facts as a federal claim; and (iii) diversity jurisdiction, over cases arising under state law between citizens of different States (or involving foreigners – technically alienage jurisdiction but traditionally considered with diversity jurisdiction): *Hamid* para 11, *Wright & Kane* (6th edn) §5-2 to 5-4.
52. In diversity cases, the decision of the US Supreme Court in *Erie Railroad v Tompkins* 304 U.S. 64 (1938) established that a federal court should apply state law, not some supposed federal general common law, disapproving a doctrine to the contrary that had stood for nearly a century since *Swift v Tyson* in 1842: see per Justice Brandeis at 78:

“Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state... There is no federal general common law.”

In that case the plaintiff, a Pennsylvania resident who had been struck by a train when walking alongside the defendant’s railroad in Pennsylvania, could have sued in a Pennsylvania state court, but chose to sue the defendant, a New York corporation, in a federal Court in New York under the diversity jurisdiction, hoping to take advantage of the higher standard of care supposed to be required by federal common law rules of tort as opposed to a lesser duty under Pennsylvania tort law. The attempt failed, the Court seeing the *Swift v Tyson* doctrine as encouraging undesirable forum shopping, one of the most egregious examples being *Black & White Taxicab & Transfer Co v Brown & Yellow Taxicab & Transfer Co* 48 S Ct 404 where the plaintiff company, a Kentucky corporation, wished to obtain an injunction against the defendant company, another Kentucky corporation, but knew that it would fail in a Kentucky state court applying Kentucky law. It therefore reincorporated itself as a Tennessee corporation and brought a diversity suit in a federal court where it succeeded in obtaining its injunction under federal common law principles.

53. It is clear that *Erie* was a seminal decision of immense practical and constitutional significance (see *Wright & Kane* (7th edn) at §55 to 56 eg at p 376 “it is impossible to overstate the importance of the *Erie* decision”), but I do not think it is of any direct relevance to anything I have to decide. The 1943 proceedings were brought under the Sherman Act, which is an Act of Congress, and the jurisdiction that the District Court was exercising in 1945 when it made the 1945 Decree was therefore federal question jurisdiction: *Hamid* para 13. I did not understand this to be in dispute, and as I understand it, it follows that when in 1945 the District Court granted judgment in the form of the 1945 Decree, it was doing so in accordance with federal law. Indeed it

would seem very odd to suggest it was doing anything else: section 1 of the Sherman Act shows that the Act was concerned with trade between States or with foreign nations (that is matters of federal concern) and section 4 specifically conferred on the US courts (that is the federal courts) jurisdiction to restrain violations. This would appear to be a paradigm example of an Act of Congress conferring federal jurisdiction on a federal court in relation to a purely federal subject.

54. When it comes to the hearing of the motion in 1955, the analysis is more complex. With the help of the experts, four questions can be identified which it is helpful to keep distinct, namely:
- (1) What law would have governed the overall issue for the Court, the overall issue being whether it should modify the 1945 Decree to permit the 1955 Agreement to take effect ?
 - (2) Would the Court have applied federal common law principles to the construction of the 1955 Agreement ? If not, what law, if any, would it have applied ?
 - (3) If it had been necessary for the Court to determine the governing law of the 1955 Agreement and the Court did not apply federal common law principles, would the Court have applied federal choice of law principles to determine the governing law of the contract ?
 - (4) On the application of those principles what governing law would the Court have found to apply ?
55. So far as Question (1) is concerned, the Court would I think decide this issue as a matter of federal law. The 1945 Decree had been made by the Court under its federal question jurisdiction and it seems self-evident that the question of whether it should be modified was an exercise of the same jurisdiction. Neither expert, as I read their reports, suggests to the contrary.
56. The experts however did disagree about how the remaining issues would have been decided had there been any controversy about them. They are all more or less hypothetical in that there was not in fact any dispute about the effect of the 1955 Agreement, or any need to construe it, let alone to consider what its governing law was or resolve any conflict of laws, and in circumstances where the US Government was not objecting to the motion, and was indeed supportive of it, it is perhaps unlikely that there ever would have been. Nevertheless I will proceed to set out my conclusions on them.
57. Question (2) is perhaps the most difficult for an English lawyer. I am however unpersuaded that the District Court would have applied federal common law principles to the construction of the 1955 Agreement, for the following reasons:
- (1) US contract law varies from State to State: there is no nationwide federal contract law: *Patterson 1* para 5, *Patterson 2* para 4. Mr Hamid does not suggest to the contrary.
 - (2) Federal courts may however fashion federal substantive rules of decision in

particular specialised areas: *Patterson 1* para 11, *Hamid* para 18. Two examples are: (i) *Williams v Metzler* 132 F.3d 937 (3d Cir. 1997), a decision of the Court of Appeals for the Third Circuit, which concerned an agreement to settle a claim under the Energy Reorganization Act, a federal statute; and (ii) *U.S. Anchor Mfg., Inc. v Rule Industries, Inc.* 7 F.3d 986 (11th Cir. 1993), a decision of the Court of Appeals for the Eleventh Circuit, which concerned an agreement to settle federal antitrust claims: *Patterson 1* paras 16-17, *Hamid* paras 19-20.

- (3) In *Williams v Metzler* the Court said (at 946):

“This settlement agreement involves a right to sue derived from a federal statute, and, consequently, federal common law provisions govern construction of the contract.”

Similarly in *U.S. Anchor* the Court said (at 993 footnote 11):

“Federal common law, not the state law of contracts, determines the effect of settlement agreements alleged to release federal antitrust claims.”

The authority cited in *U.S. Anchor* for this proposition was *Redel’s Inc. v General Elec. Co.* 498 F.2d 95 (5th Cir., 1974) where the Court referred to the “release of a federally created statutory claim.”

- (4) As these citations illustrate, these federal rules of decision can be referred to as ‘federal common law’ so even though there is under the *Erie* doctrine no ‘federal general common law’, there is a body of ‘federal common law’. But it is not a complete system of law: it applies in certain narrow and specialised fields.
- (5) Mr Hamid’s opinion was that a federal court considering whether an agreement violates the Sherman Act would not in practice consider its governing law but would assess the practical effect of the agreement by reference to its plain language. This opinion was supported by research his firm had carried out in which a review of dozens of antitrust cases had not turned up any in which a federal court had actually addressed what law applied to an agreement: *Hamid* para 23.1.
- (6) If however the District Court had found it necessary to determine the governing law, Mr Hamid was of the view that it would apply federal common law principles by analogy to such cases as *Williams v Metzler*, *U.S. Anchor* and *Redel’s*: *Hamid* paras 23.2 to 23.6.
- (7) Professor Patterson however considered that it was not possible to apply those cases by analogy, citing *Texas Instruments v Radcliff Materials* 451 U.S. 630 in which the Supreme Court re-iterated that there are few and restricted instances in which the courts may fashion federal common law, and apparently declined to find a federal common law under the Sherman Act: *Patterson 2* para 7. (I say ‘apparently’ because I have not seen the report itself.)

- (8) It is not easy on this limited material to understand when the federal courts will apply federal common law principles to a particular question and when they will not, but on the material I have seen I prefer the view expressed on this point by Professor Patterson. It is common ground that federal common law is not routinely applied by federal courts to contracts but only applied in certain particular cases. Mr Hamid's own description of *Williams v Metzler* and *U.S. Anchor* is that they are examples of contracts which "deal with rights arising under federal law", specifically the settlement or release of claims involving rights derived from a federal statute: *Hamid* para 19. The 1955 Agreement does not seem to me to fall within this class of contracts, or be closely analogous to it. It does not contain a settlement or release of antitrust claims, or of any other rights derived, as far as I am aware, from federal statutes or otherwise from federal law. It does contain an agreement to settle existing disputes but these were trade mark disputes being litigated in various countries other than the US and it has not been suggested that any of them involved US federal law rights. I have been referred to no authority or textbook which establishes, or even tends to suggest, that the fact that the 1955 Agreement was made against the background of the 1945 Decree in a federal suit means that it falls within one of those specialised areas where federal common law rules apply to its interpretation.
- (9) In these circumstances I conclude that even if the District Court had had to construe the Agreement it would not have applied federal common law principles to do so.
58. That leaves under Question (2) the issue what law the Court would apply when considering the effect of the 1955 Agreement. As to this:
- (1) There was no difference between the experts as to what the Court would in fact do if it had to consider what the 1955 Agreement did. Mr Hamid's view, as already referred to, was that a Court in such a position would not have applied any particular law at all, but would have assessed the practical effect of the agreement by reference to its plain language. Professor Patterson agreed that the lawyers considering the agreement in the Department of Justice, and the Court itself, would not have required any formal approach to conflict of laws at the outset, and further agreed that the Court would have assessed the practical effect of the agreement by reference to its plain language: *Patterson 2* paras 11-12.
- (2) But he said that any reading of the contract has to be with reference to some system of law (*Patterson 2* para 11), that this could not be federal common law (for reasons which I have already accepted), and that in the absence of any dispute as to the governing law, the Court would apply New Jersey law as the default position (*Patterson 1* paras 12 and 20, *Patterson 2* para 9).
- (3) It is here that I feel most keenly the limitations of neither having any experience of the workings of the federal court system nor more detailed explanation of it in the evidence. I understand the point that Professor Patterson makes that a contract cannot exist in a legal vacuum, and anyone reading and seeking to understand it must therefore be doing so by reference

to some legal system, but this seems to me a theoretical point rather than a real one. In practice, as both experts agree, unless there was some dispute as to the effect of the contract (in which case the Court might have to decide both what the governing law was and what that law provided), the Court would simply assess the effect of a contract by reference to its plain language. It is not clear to me that in doing so it would be applying any particular system of law at all.

- (4) To take an analogy, if an English court wanted to understand the effect of the 1955 Agreement, it would read it to see what its terms provide. I do not think that in doing so it would be applying English law in any meaningful sense. It might very well (and, in the absence of any reason not to, no doubt would) read the agreement in the same way as it would read an English contract, but it is not in fact an English contract (as is evident, and common ground) and the court would not I think assume that it was. It might assume, in the absence of any suggestion to the contrary, that whatever its governing law, the effect of the agreement was the same as it would be if it were an English contract, but that is a different point. Unless and until it has been suggested and proved that a foreign law differs in some material respect from English law, an English court will proceed on the basis that it is not materially different. But this does not mean it is applying English law: it is assuming that whatever the foreign law is, it is in material respects the same.
- (5) With all respect to Professor Patterson therefore I am not persuaded that the mere fact that a contract must be read and understood by reference to some legal framework by itself means that the District Court would, in a case where there was no dispute as to the effect of a contract, be applying New Jersey law. It might read the contract in the same way as it would read a New Jersey contract, but if it did not need to decide what law in fact applied to it (and in the absence of any dispute as to its effect it would not need to), I do not see that it would by default be applying New Jersey law.
- (6) It may be that Professor Patterson was alluding to a different point. If I have appreciated the *Erie* doctrine correctly, it means that in diversity cases the federal courts sit in effect almost as another state court, applying state law to disputes before them. And I can see that if there is no dispute as to which state law is to apply, a federal court will apply the law of the forum state, so that a District Court sitting in New Jersey will in a diversity case apply New Jersey law by default.
- (7) But if this is the point, I have not understood whether or how it applies in a non-diversity case where the District Court is exercising federal question jurisdiction. There is certainly some US authority that a federal court in a non-diversity case is not sitting as a local court: see *Wright & Kane* (7th edn) §60 at 413 referring to a “much-admired concurring opinion” of Justice Jackson in *D’Oench, Duhne & Co v Federal Deposit Insurance Corporation* (1942) 62 S Ct 676 at 686:

“A federal court sitting in a non-diversity case such as this does not sit as a local tribunal. In some cases it may see fit for special reasons to give the law of a particular state highly persuasive or even controlling

effect, but in the last analysis its decision turns upon the law of the United States, not that of any state. Federal law is no juridical chameleon changing complexion to match that of each state wherein lawsuits happen to be commenced because of the accidents of service of process and of the application of the venue statutes.”

On this principle one would expect a federal court exercising federal question jurisdiction to read the 1955 Agreement in the same way wherever it happened to be sitting. This does not mean that it would apply federal common law principles to its interpretation (a proposition I have already rejected); but that if there were no dispute as to the governing law it would read the agreement by reference to its plain language (which would not involve applying any particular state law), and if there were a dispute, it would resolve it by applying the appropriate choice of law rules.

- (8) I find therefore that it has not been established that the District Court would, in the absence of any dispute as to the governing law, apply the law of New Jersey to the interpretation of the 1955 Agreement simply because it was sitting in New Jersey. In the absence of a dispute it would not need to apply any particular state law to understand its effect; and if there were a dispute it would resolve it by identifying the appropriate governing law.
59. Question (3) is I think more straightforward. I find that if there had been an active dispute as to the governing law of the 1955 Agreement, the Court would have decided between rival putative governing laws by applying the federal choice of law rules rather than the New Jersey choice of law rules. This is for the following reasons.
- (1) It is well established that in cases in which the *Erie* doctrine applies, the federal court should apply whatever law would be applied by the courts of the State in which the District Court is sitting: *Wright & Kane* (7th edn) §57 at p 387, *Klaxon Co v Stentor Electric Manufacturing Co* 61 S Ct 1020 (1941), *Griffin v McCoach* 61 S Ct 1023 (1941).
- (2) But in cases where the District Court is exercising federal question jurisdiction, it appears that the District Court will apply federal choice of law rules: *Hamid* para 23.10; *Gluck v Unisys Corp* 960 F.2d 1168 (1992), a decision of the US Court of Appeals for the Third Circuit; *Pfizer Inc v Elan Pharmaceutical Research Corp* 812 F. Supp. 1352; *in re Catfish Antitrust Litigation* 908 F. Supp. 400.
- (3) In *Gluck* the Court of Appeals said (at 1179 n 8) that the teaching of *Klaxon* requires application of a forum state’s choice of law principles in diversity cases:
- “but the concern at work in *Klaxon* – the protection of a state’s interest in the proper application of its laws – is not a concern when federal law is applied. A state court or legislature does not necessarily seek to further or even consider federal laws when it develops its choice of law provisions. A federal choice of law rule would address those concerns.”

In *Pfizer*, the District Court for the District of Delaware (also in the Third Circuit) cited *Gluck* for the following proposition:

“This case invokes the federal question jurisdiction. In federal question cases federal courts are directed to apply a federal common law choice of law rule to determine which jurisdiction’s substantive rule should apply.”

- (4) Professor Patterson in his 1st report suggested that the District Court would apply New Jersey conflict of law rules (*Patterson I* para 13) citing *Linan-Faye Construction Co v Housing Authority of the City of Camden* 49 F.3d 915 (1995), another decision of the US Court of Appeals for the Third Circuit; and *Perini v City of New York* 18 F.Supp.2d 287.
 - (5) Neither however seems to me to depart from, or cast any doubt on, the law as stated in *Gluck*. *Linan-Faye* was a diversity case where the Court of Appeals applied the *Erie* doctrine. The question in issue was whether state law should be displaced in favour of federal law due to the particular nature of the contract concerned (in that case a contract to renovate public housing that was substantially funded by the US Department of Housing and Urban Development and which included a federally mandated “termination for convenience” clause). The Court held that New Jersey law applied to the dispute, on the basis that in the absence of an express Congressional grant of authority, federal common law should only be applied where both (a) the action involved uniquely federal interests and (b) the Court identified a significant conflict between federal policy or interest and the operation of State law. I do not read the decision as saying anything about what the approach should be in federal question cases, or indeed about which choice of law rules should be applied at all.
 - (6) *Perini* was a similar case where again the jurisdiction of the federal court was based on diversity (see at 292 referring to 28 U.S.C. § 1332 which is the section conferring diversity jurisdiction) and the contract between the parties included a federally mandated “Changes” clause. The District Court for the Southern District of New York held that New York law, not federal law, applied to the interpretation of the clause, on the same basis as *Linan-Faye*, namely that there was no uniquely federal interest concerned, nor a significant conflict with state law. It too does not, so far as I can see, say anything about non-diversity cases or about which choice of law rules should be applied.
 - (7) Professor Patterson did not respond in his 2nd Report to Mr Hamid’s statement that *Gluck* established that the District Court will apply federal choice of law rules in federal question cases.
 - (8) I conclude therefore that if there had been a live issue as to which choice of law rules the District Court would apply, it would have applied federal choice of law rules not New Jersey ones.
60. So far as Question (4) is concerned, the experts put forward, more or less tentatively, some views as to what the District Court would in 1955 have decided the governing

law of the 1955 Agreement to be, based on either the federal or New Jersey choice of law rules as then understood. It is not however necessary for me to consider these because on any view I regard the answer to this question as irrelevant to anything I have to decide. It is agreed that renvoi has no place in the English conflict rules, which means that it is of no assistance to know what law the District Court would have held to be the governing law had the point arisen.

61. I will therefore proceed on the basis (1) that the District Court was exercising federal question jurisdiction both in 1945 and in 1955 and would have applied federal law principles to the overall question whether to approve the proposed modification; (2) that it would not have applied federal common law principles to the construction of the 1955 Agreement, but, in the absence of any dispute as to governing law, it would have adopted a plain reading of the agreement which would not require identifying any particular governing law; and (3) that if there had been a dispute as to the governing law, it would have adopted federal choice of law rules to resolve that dispute.
62. It is now possible to return to Mr Carr's submission that since the District Court was a federal court applying federal law, the requirement to put the 1955 Agreement before the District Court for its approval did not in any event point to New Jersey law as its governing law. It can be seen that I essentially accept the premise, namely that the District Court, although physically sitting in New Jersey, was a federal court exercising federal question jurisdiction with no particular reference to state law. But the conclusion does not necessarily follow.
63. Mr Hobbs submitted that it did not. He said that it was a mistake to think of federal law and state law as if they were two compartmentalised, independent systems of law. The District Courts do not administer a free-floating system of law: they take their (federal) law from (federal) statutes but they sit in a State and when they apply federal law they do so as part of the legal system of the State in which they sit. In other words, the law of New Jersey has two streams running through it: in part it consists of state law (derived from state legislation and the decisions of state courts), in part of federal law (derived from federal legislation and the decisions of federal courts). He drew an analogy with the relationship between European law and English law: the law of England consists in part of domestic law (derived from UK statutes and decisions of English courts) and in part of European law (derived from European legislation as explained by the decisions of the European Court of Justice), and although European law has features which distinguish it from domestic law, in that it has a different source, applies throughout the European Union, and has a uniform meaning across all Member States, that does not mean it is in any relevant sense a separate system of law. In England it is part of the law.
64. This is an interesting and important submission which goes to the heart of the relationship between federal and state law. So far as the analogy with European law is concerned, I accept his description of the relationship between European law and English law, but one needs to be careful with it as an analogy, as one cannot assume that the constitutional position of the US vis-à-vis the several States is the same as that of the EU vis-à-vis its Member States. It obviously bears some resemblance at a high level of generality, but beyond that one cannot go. One obvious difference is that we do not have European trial courts sitting in each of the Member States trying

European questions.

65. But that still leaves Mr Hobbs's submission as to federal law not being an independent system of law. I would have benefited from evidence more directly focussed on this issue, but I have come to the conclusion that I should accept Mr Hobbs's submission. As I understand it, the States have through the US constitution conferred certain powers on the federal government to make federal laws but, subject thereto, each State remains a sovereign entity which makes its own laws. A citizen of New Jersey therefore has legal rights, and is subject to legal obligations and restrictions, deriving both from state law and from federal law. But that does not mean that he is living under two separate systems of law, any more than he is living in two different countries. It means that the legal system under which he is living has elements deriving from two different sources. When therefore the District Court sits in New Jersey and applies federal law to a New Jersey corporation such as Merck & Co on the basis of acts which it has engaged in in New Jersey, this forms part of the legal system to which Merck & Co is subject as a corporation incorporated, headquartered and operating in New Jersey.
66. It seems to me that for the purposes of the conflict of laws, the "law of New Jersey" comprises the totality of the laws applicable in New Jersey, whether they are derived from state legislation (or common law) or federal legislation; and that the District Court sitting in New Jersey was applying the law of New Jersey in this sense even though it was exercising federal question jurisdiction.
67. It follows in my judgment that insofar as clause 12 of the 1955 Agreement, and the need to obtain an appropriate Court order, point to a connection with a system of law, Mr Hobbs is right that that system of law is the law of New Jersey. It is not the law of the US as a whole, it being common ground that there is no US law of contracts as such.

Is the requirement to obtain approval determinative ?

68. That being so, the next question is whether Mr Hobbs is right that it really follows that the law of New Jersey is the system of law with which the 1955 Agreement has its closest and most real connection because both parties were working together with the common objective of obtaining the *imprimatur* of the District Court, and indeed there could be no agreement at all of this kind between these parties unless that was done. As he put it that was the system of law that they 'plugged into' and they had no choice because it was the system of law which governed the existence and operation of the 1945 Decree.
69. He relied on a statement in *Dicey* at 1184 to the effect that:

“the fact that the form or wording of a contract has been approved or prescribed by the authorities of a given country or by the head office of a commercial undertaking with branches in a number of countries may be a pointer towards the proper law”

and to two illustrations: *Imperial Life Assurance Co v Colomares* [1967] SCR 443, and *R v International Trustee for the Protection of Bondholders Aktiengesellschaft*

[1937] AC 500.

70. In the *Imperial Life* case, a Canadian insurance company with its head office in Toronto issued two policies to a Cuban national through its Havana office. Although written in Spanish, both the applications for insurance and the policies were prepared in Ontario in a standard form which complied with the law of Ontario, and the applications were addressed to, and approved at, the head office. The Canadian Supreme Court held that they were governed by the law of Ontario, Ritchie J saying (at 449) that it was:

“a reasonable inference that a person applying for insurance prepared at the head office of an Ontario company would anticipate that the policies which he was to receive would be governed by the law of that Province.”

71. In the *International Trustee* case, the UK Government had raised money in 1917 from the US market by offering convertible loan Notes in New York. The House of Lords held that the Notes, and hence the bonds into which they had been converted, were governed by New York law. Most of their Lordships relied on a number of factors: see for example Lord Atkin at 553 referring to the Notes being issued in America, expressed in American currency, payable at one option in America on a value estimated by reference to American currency, and secured by a pledge agreement which was itself also made in America and performed in America by the deposit of securities with an American company, and which conferred rights under American law. Lord Roche however relied in particular on two matters, one being that the offer of the Notes provided that the offering was “subject to the approval by our counsel of the necessary formalities”, and the other being that the pledge of securities gave the Bankers Trust Company of New York (the pledgee) the right to consult legal counsel selected by it as to the meaning of the pledge or its powers or duties under it, and to be protected in anything done in good faith in pursuance of the opinion of such counsel. Lord Roche said that ‘counsel’ in both places meant counsel in New York and continued (at 574):

“Stipulations of this nature are properly deemed to be of the greatest weight in the determination of questions as to the proper law of contracts. As a rule, and this is no exception, the Courts and lawyers of any country or locality are taken to be intended to apply their own native law to the matter submitted to them for decision or advice. The letter of February 1 [the pledge] in effect provides for the decision under the law of New York of any doubtful matter, including any matter of construction. Such a stipulation on the subject of construction goes to the heart of the question of what is the proper law of the contract.”

72. Both decisions seem eminently sensible, but neither is particularly close to the present case. In the *Imperial Life* case it is readily understandable that the Court should regard the fact that a standard form of contract had been approved by the head office in Toronto, and in a form which complied with Ontario law, as a pointer to Ontario being the proper law. In the *International Trustee* case, what Lord Roche said is again obvious good sense. A stipulation that an offer is subject to New York counsel approving the formalities, or that a party can safely act in accordance with advice from New York counsel as to the meaning of an instrument, strongly suggests that

New York law is to govern the transactions in question because there is no reason otherwise why that role should be conferred on New York counsel. I do not read the case as laying down any wider proposition than that.

73. In the present case the 1955 Agreement was not a standard form but a bespoke document, and I do not think that its *form* was in any real sense approved by the Department of Justice or by the District Court; they considered its practical effect, and approved it from an anti-trust point of view because they considered that it promoted rather than restricted competition. There is nothing to suggest that in doing so they were expected to be, or were, interested in the technicalities of drafting, or construing, the 1955 Agreement as New Jersey lawyers (nor indeed is there in fact any evidence that the Department of Justice lawyers in Washington DC had any particular expertise in New Jersey law, although Judge Forman unsurprisingly did). I therefore do not find these authorities, and the principle set out in *Dicey* which they exemplify, of any particular assistance.
74. That however does not by itself nullify Mr Hobbs's more general point that the requirement to obtain Department of Justice approval and an appropriate order from the District Court points to the central significance of the law of New Jersey to the 1955 Agreement. But I do not accept that this has the paramount importance that Mr Hobbs sought to ascribe to it. The agreed principle, in the words of *Dicey*, is that the governing law is to be found in the "system of law with which the transaction has its closest and most real connection" but "the transaction" here does not refer to the process of negotiating and agreeing a contract and getting to the stage of a binding and effective agreement. It refers rather to what is to be done under the agreement: see the *Coast Lines* case [1972] 2 QB 34 at 46F-H per Megaw LJ where he said that the transaction meant "the transaction contemplated by the contract", and that "what was to be done under the contract – its substance" was more important than matters of form; and at 50H per Stephenson LJ where he agreed.
75. If this is right, the fact that the 1955 Agreement had to be approved by the Department of Justice and the District Court before it became effective is not in my judgment of such significance as to be in effect determinative. This is all part of the process by which the parties got to the stage of having a binding agreement, but tells one nothing at all about the substance of the transaction, what is to be done under the contract.
76. Mr Hobbs said that the 1955 Agreement was made in New Jersey, deploying an extended metaphor under which he described it as a marriage that was solemnised in New Jersey with Judge Forman officiating and the Department of Justice as best man. I do not think this is an accurate or adequate description of what happened. The agreement was negotiated, finalised, agreed and signed (and dated 12 September 1955) in Darmstadt. It is true that clause 12 provided for it not to become effective until a Court order had been obtained, but I do not think this means that the agreement was in any relevant sense made in New Jersey. It means that the agreement made in Darmstadt was subject to a suspensory condition which had to be fulfilled before it became effective. I regard it as an overstatement to suggest that this means that the agreement was only made when and where that condition was fulfilled. And I rather doubt if the parties regarded themselves as at liberty to withdraw from it or renegotiate it between the agreement being signed on 12 September 1955 and being

sanctioned by the Court on 24 October 1955: that after all was why the representatives of Merck & Co had been keen to get it signed while they were still in Germany.

77. As for Mr Hobbs's marriage metaphor, I did not find it of any help. If one is going to rely on such an analogy at all, I would regard a closer one to be a case where one of the parties to a marriage required a consent from some third party to contract a valid marriage. If the parties went through a ceremony of marriage in the confident and justified expectation that such consent would follow soon afterwards, I suspect they would regard the marriage as having taken place when and where the ceremony was celebrated rather than when (and where) the consent was subsequently formally given, even though technically the marriage would not be effective until the consent had been obtained.
78. But what this really illustrates is the limited utility of metaphors. The fact remains that Merck & Co and E. Merck reached not only a commercially agreed deal, but signed a fully negotiated and drafted agreement, in Germany. It was known, and acknowledged, that a Court order would be required before the agreement could become effective, but no difficulty was anticipated, or in the event experienced, in obtaining it. As Mr Carr said, if, as had originally been envisaged, the agreement had been put before the District Court in draft and only signed afterwards, it would not have contained clause 12 at all. This illustrates that clause 12 is not part of the substance of the transaction, but is part of the process by which the parties reached a binding and effective agreement.
79. Moreover it was only Merck & Co that was subject to the restrictions in the 1945 Decree and required the authority of the Court to proceed: E. Merck were not parties to the US proceedings and took no part in applying for the Court order. Mr Hobbs said that this was a technical way of looking at it and that the reality was that both parties needed the Court order, and both parties agreed it should be obtained. Of course this is true in the sense that unless Merck & Co could obtain a Court order, they could not effectively contract with E. Merck and so E. Merck could not effectively contract with them. But this does not I think detract from the point that it was Merck & Co, not E. Merck, that was subject to the 1945 Decree and had to apply to the Court. This was not something done by both parties; it was a formal requirement that applied to one party only.
80. Mr Carr referred to *Apple Corps Ltd v Apple Computer Inc* [2004] EWHC 768 (Ch), another case where two parties with similar names had entered into a worldwide agreement settling litigation and regulating the use of their respective trade marks across the world but without specifying a governing law. Mann J had to determine this under the Contracts (Applicable Law) Act 1990 which incorporated the Rome Convention, art 4 of which required him, in a case where (as he held) it was not possible to determine the contract's characteristic performance, to determine "the country with which it [the contract] is most closely connected", a test which is similar, if not quite identical, to the English common law test. Among other suggested connections with England was clause 13.2 as to which he said, at [63(d)]:

"Clause 13.2... refers to delivery of particulars under the Restrictive Trade Practices Act 1976, and clause 14.2 made it clear that the implementation of the agreement was conditional on fulfilment of that condition. Particulars

were duly delivered, and the Office of Fair Trading decided that the 1976 Act did not in fact apply to it. This provision undoubtedly gives rise to some connection with England even though the delivery was ultimately not required by law. It seems to me, though, that this connection point is again weak. The agreement was intended to have worldwide operation, and this was just a specific provision referring to its operation in one specific jurisdiction.”

This is not entirely on all fours with the present case, but it illustrates the point that the fact that a contract contains a suspensory condition until certain formalities have taken place in a particular country, and under a particular legal system, is not necessarily a strong connecting factor, let alone a conclusive one.

81. In my judgment the fact that it was essential for Merck & Co to obtain the approval of the Department of Justice and the *imprimatur* of the District Court does not by itself carry the significance which Mr Hobbs sought to ascribe to it. I accept that it is a connecting factor with the law of New Jersey but I do not regard it as a strong one: it was a necessary hurdle that needed to be cleared before the parties’ agreement became effective, but once it had been cleared it had no continuing bearing on the substance of the transaction, or in other words with what the parties did under the contract.

Other factors relied on by Mr Hobbs

82. Mr Hobbs relied on certain other matters in support of his main submission, as follows:
- (1) In his written argument he referred to the fact that the crucial feature of the 1955 Agreement was that it drew a distinction between use of the word ‘Merck’ as a trade mark and its use as a trade name or corporate name, a distinction that was known and established in US law and embodied in the 1946 Lanham Act, the principal US statute dealing with trade marks. This point was not developed orally, and I am not persuaded that it carries any weight at all. For the point to have any substance it would have to be established that unlike US law German law knew no such distinction. But not only has this not been shown, there is positive evidence, in the form of a memorandum from Dr Vogt dated 19 October 1949, that he drew a similar distinction between use of ‘Merck’ as a firm name as opposed to as a trade mark, and asked what the position of US law was in this respect. In these circumstances the fact that the 1955 Agreement itself drew this distinction does not point to one law or the other.
 - (2) Also in his written argument but not developed orally, Mr Hobbs referred to the fact that in 1955 German law was in a state of flux, the suggestion being that ordinary, reasonable and sensible businessmen would not have intended their contract to be governed by a law that was so unstable: the Federal Republic of Germany was not established until 1949, the state of war with Germany did not formally end until 1951, and in the aftermath of the war there was a reshaping of certain laws, for which reference was made to *Foster & Sule, German Legal System and Laws* (4th edn, 2010) at §8.4. He also said that it was revealing that the parties struggled with the definition of Germany,

and suggested that if there was difficulty agreeing how ‘Germany’ was to be defined, how much more difficult it would have been to agree on the ‘law of Germany’ in the post-war period.

What however *Foster & Sule* actually appears to indicate is that there was no wholesale reshaping of the legal system, but instead a repeal of laws passed in the Nazi era and the introduction of a general no-discrimination rule. It is perhaps unlikely that these measures would have had much if any relevance to laws on such essentially technical questions as the law of contract or of trade marks, and Mr Carr told me, and I have no reason to doubt, that the relevant German law on which he relies, that on contractual interpretation, is found in certain provisions of the Federal Civil Code (the *Bürgerliches Gesetzbuch*) which were enacted in 1900 and have remained unchanged since. As to the definition of ‘Germany’, it was essential where Germany was being singled out as one of the territories for particular treatment to have an agreed geographical definition; and in circumstances where Germany had first expanded from the 1930s, and then been both shrunk and divided after the war, it made good sense to identify the territorial scope of clause 3 with precision. But I do not see that this has any implications as to the stability or otherwise of German law. I agree with Mr Carr that in the circumstances this point does not assist Mr Hobbs.

- (3) Mr Hobbs referred also to the fact that the 1955 Agreement was written in English, but candidly admitted that he did not personally have much enthusiasm for the point. I think he was right not to. *Dicey* summarises the position (at 1185) as being that:

“In certain cases a very cautious inference may be drawn from the use of a particular language... but the use of the English language, especially in maritime contracts, is common even where the contract has no connection with any English speaking country and is not intended to be governed by the law of any such country, and consequently, will rarely permit a conclusion as to an implied choice of law.”

The authorities cited in support date back to well before 1955. The inference to be drawn from the use of a particular language must depend on the facts, and I can see that if for example the 1955 Agreement had been written in German this might well be a powerful indicator that the parties regarded it as a German contract. But the fact that it is written in English does not I think carry any indication in favour of it being an American contract. I infer that it was written in English because the Germans spoke excellent English and all negotiations were carried on in that language. I do not think this point carries any weight at all.

- (4) Mr Hobbs suggested that the omission in the 1955 Agreement of a provision dealing with proper law and jurisdiction, in contrast to the carefully formulated double clause in the Treaty Agreement, supported his argument. The reason, he said, why the Agreement was silent on the point was because there was no point in saying anything about it because the Agreement was so

evidently bound up with New Jersey law. I do not accept this submission: it is certainly noticeable that the parties who had thought about, and taken advice on, an unusual law and jurisdiction clause in 1932, made no provision in this respect in 1955. But I do not think any inference can safely be drawn from this: so far as the evidence goes, there is no sign of their having given any thought to the point at all in 1955, and I am not prepared to infer that this is because of a shared assumption, nowhere articulated, that it was unnecessary to say anything more because it was going to be a New Jersey contract.

In my judgment therefore none of the subsidiary points relied on by Mr Hobbs adds to his central point.

Factors relied on by Mr Carr

83. Mr Carr relied in effect on only two points. One was that the contract was negotiated and signed in Darmstadt. By itself this is not a matter which necessarily carries any particular weight. Historically the law of the place where the contract was made (the *lex loci contractus*) was the starting point for the determination of the proper law: see *Dicey* at 1164 explaining the influence of *Huber's De Conflictu Legum* on the development of English legal thought. But it appears that although English courts paid lip-service to the principle, they did not allow it in fact to determine their decisions: see *Dicey* at 1165. In more modern times, the place of contracting is only one potential factor among all the others, and the weight it carries must vary from case to case. In some cases it may be of some significance, whereas in others it may be essentially fortuitous, especially if the contract is concluded by parties in different countries (as in the *Apple* case where the contract was made in the course of a telephone conversation between California and England). But even where negotiated face to face, it may be a matter of mere convenience where this takes place.
84. Mr Carr said that in this case however it was no coincidence that the 1955 Agreement was negotiated and signed in Germany. This was bound up with what was really his main point. This is that the main driver of the 1955 Agreement was the need for Merck & Co to obtain permission from E. Merck to use the name 'Merck' around the world, and the main effect of the Agreement was to grant them such permission. As the facts show, Merck & Co had since the war expanded its overseas operations and had made a vigorous and sustained effort to obtain the right to use 'Merck' as a trade mark throughout the world, but had run up against the fact that E. Merck had existing trade mark registrations in very many countries. This meant that Merck & Co had only succeeded in obtaining registrations in a handful of unimportant countries; elsewhere it had either failed or was engaged in litigation with E. Merck which it expected to lose.
85. In other words, Mr Carr said, E. Merck was the senior rights holder and Merck & Co were coming to E. Merck to ask for what was in effect a licence. As such the subject-matter of the 1955 Agreement was really a grant by the German owner of worldwide rights, and this gave the agreement a closer connection with Germany; it also explained why the Americans were travelling to Germany to ask for the licence rather than the other way round.
86. Mr Hobbs objected to the description of the 1955 Agreement as a licence, preferring

to describe it as a co-existence agreement. What is important of course is not the label that the parties then, or now, put upon the Agreement, but what it does. That I think requires a careful analysis of the substantive provisions of the Agreement.

87. Clauses 2 and 3 cater for the position in the US and Canada on the one hand and Germany on the other. They provide particular protection for Merck & Co and E. Merck on their home territories by a mutual recognition that each has the exclusive right to the use of the trade-mark Merck in such home territory, while permitting the use of the other's firm or corporate name with suitable geographical identification. Being effectively mirror image provisions, they do not point one way or the other. Nor does clause 10 which recognises equal and concurrent rights in Cuba and the Philippines; nor clause 11 which settles the existing litigation for the benefit of both parties.
88. In the rest of the world however the parties are very much not placed on an equal footing. Under clause 6 Merck & Co recognises that E. Merck is entitled to the use of Merck as a trade-mark, and under clause 7 Merck & Co agrees to cancel all existing registrations, withdraw all applications, and discontinue all use of it as a trademark (and of the Merck Cross and MerckMerckMerck); this is supplemented by clauses 8 and 9 under which Merck & Co agrees to discontinue particular names. This is an explicit recognition that outside the US, Canada, Cuba and the Philippines – that is in the vast majority of the countries in the world – E. Merck has the senior rights, and Merck & Co agrees to respect them.
89. In return Merck & Co gets the benefit of clauses 4 and 5. Clause 5 allows it to use Merck & Co as a firm or corporate name with suitable geographical identification. Clause 4 allows it to use Merck-Sharp & Dohme both as a trade-name or corporate name and as a trade-mark. Clause 5 was doubtless of benefit to Merck & Co as an explicit recognition that the use of 'Merck & Co' as a geographically identified name rather than a mark was not something that E. Merck could object to; whether E. Merck could otherwise have done so would presumably have depended on the local trade mark laws in each country. Clause 4 was also clearly a real prize for Merck & Co, as it allowed it to continue its overseas trade under the name and mark of Merck-Sharp & Dohme without the risk of being held to infringe E. Merck's existing rights in the trade mark 'Merck'. According to Mr Horan when he addressed Judge Forman, Merck & Co had named its export branch Merck-Sharp & Dohme International and wanted to register Merck-Sharp & Dohme as a trade-mark but had found themselves prevented from doing so by E. Merck's existing registrations. This is what clause 4 permitted them to do.
90. Thus although clause 4 is phrased as one where E. Merck 'recognizes' that the use by Merck & Co of Merck-Sharp & Dohme as a trade-mark or name is not confusingly similar to its own marks or names, and clause 5 as one where E. Merck 'will not object' to the use of 'Merck & Co' as a geographically identified name, I accept Mr Carr's submission that these constitute in effect an agreement by E. Merck as the senior rights holder to permit Merck & Co to do certain things which it might otherwise have been able to stop. I do not see that this is conceptually any different from a licence (which is just another word for a permission to do something). So although clauses 4 and 5 do not, any more than the rest of the 1955 Agreement, use the explicit language of a licence, their substantive effect is the same.

91. Leaving aside the settlement of the litigation and the position in the parties' home territories and the relatively minor joint territories of Cuba and the Philippines, the 1955 Agreement in substance therefore consisted of a recognition by Merck & Co of E. Merck's worldwide rights to the use of 'Merck' as a trade mark, and E. Merck's agreement that notwithstanding such rights, Merck & Co could do certain things. In these circumstances I accept Mr Carr's submission that the main driver for the Agreement was the need for Merck & Co to obtain permission from E. Merck, and its main effect was to grant such permission.

92. Mr Hobbs pointed to a letter from E. Merck dated 12 September 1955 (the same date the Agreement was signed) which referred to both parties having valid claims to the name 'Merck' and it being

“most desirable that we settle our trade-mark and trade-name problems by mutual agreement”

and suggested that it was wrong in the light of this to regard Merck & Co as (to use Mr Carr's word) a 'supplicant' asking for a favour from E. Merck. It is not clear from the record why this letter, not referred to in Mr Horan's account of the meetings in Darmstadt, was written at all; but in any event even without it I would assume that the 1955 Agreement, like most contracts, was of benefit to both parties. It was of benefit to E. Merck not only in that it put an end to litigation which it regarded as an unnecessary expense, but also in that it recognised its rights around the globe, contained an agreement by Merck & Co to cancel, withdraw and discontinue use of 'Merck', the Merck Cross and MerckMerckMerck as trade marks, and allowed it to use its name as a name in the US and Canada. But I do not regard this as undermining Mr Carr's point that in essence Merck & Co, who were losing the global litigation, were coming to E. Merck to ask for, and succeeded in getting, permission to do things.

93. And although I regard this as of less significance, I also accept Mr Carr's submission that this explains why the Americans went to Germany to obtain the agreement. Mr Hobbs pointed out that negotiations took place both in the USA and Germany, but it was the Americans who took the initiative (Mr Horan being the one who had first raised the suggestion of a settlement) and it was natural for the Americans to go to E. Merck to obtain the rights they wanted.

94. Are these connecting factors with German law? In my judgment they are. In one sense of course the system of law with which the 1955 Agreement is concerned is every system of law where E. Merck has trade marks – that is throughout the world. But no-one suggests, rightly, that it can have more than one proper law, and where a person travels to Germany to negotiate for, and obtains, permissions from the German owner of rights held around the globe, I accept Mr Carr's submission that this is a connecting factor with Germany and German law. As indicated above, there is in fact a debate in the authorities whether the test should refer to the system of law with which the transaction has its closest and most real connection or the country, but neither party suggested that it made a difference in the present case and I do not think it is necessary for me to consider the point. A contract made in Germany with a German owner of rights in my judgment has a connection both with Germany and with German law that being, in default of anything else, the putative system of law for

such a transaction.

Conclusion

95. I have found that the requirement to obtain a Court order from the District Court in New Jersey is a connection with the law of New Jersey, but that the transaction as a whole has a connection with German law. It is now necessary to identify which is the closer and more real connection. This is to some extent an artificial task as the two are incommensurable, but my conclusion is that the connection with German law is the closer and more real connection. I do so in essence because what I understand to be of significance in this context is the substance of the transaction – what the transaction does – rather than matters which however important to get right are essentially subsidiary and ancillary to the transaction. I regard the requirement to obtain the approval of the District Court as more relevant to the ability of Merck & Co to enter into the 1955 Agreement than to the substance of it.
96. If I stand back from the detail and look at the picture as a whole, this seems to me to accord with the reality of the position. The 1955 Agreement, a contract made in Germany whose main effect is a grant by a German rights-owner of permission to an American to do things, seems to me to be more aptly characterised as a German contract, albeit one which required to be approved by an American court, than as an American contract.
97. I therefore hold that the 1955 Agreement was governed by German law rather than the law of New Jersey. It not being disputed that the 1970 Agreement and 1975 Letter are governed by the same law, I will therefore answer the preliminary issue by declaring that the governing law of the 1970 Agreement and 1975 Letter is the law of Germany.
98. I am grateful to counsel for their most interesting and well-argued submissions.