FEDERAL COURT OF AUSTRALIA

Merck KGaA v Merck Sharp Dohme Corp [2019] FCA 1084

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| File number: | NSD 610 of 2018 |
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| Judge: | **NICHOLAS J** |
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| Date of judgment: | 12 July 2019 |
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| Catchwords: | **ESTOPPEL** – issue estoppel – proper law of “co-existence” agreement – whether first respondent precluded from denying that agreement governed by German law – whether first respondent bound by issue estoppel arising out of proceedings between applicant and the first respondent in United Kingdom (“UK proceedings”) in which it was found that the agreement was governed by German law – whether test applied in UK proceedings was different from test to be applied under Australian law – whether issue estoppel would arise were different tests applied**PRACTICE AND PROCEDURE** – abuse of process – whether the second and third respondents who are wholly owned subsidiaries of the first respondent and who were not party to the agreement or the UK proceedings are entitled to contend in this proceeding that the agreement is governed by New Jersey law – whether second and third respondents precluded from denying that agreement is governed by German law – whether an abuse of process for second and third respondents to deny agreement is governed by German law   |
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| Legislation: | *Federal Court Rules 1979* (Cth) O 29, r 2*Federal Court Rules 2011* (Cth) r 30.01  |
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| Cases cited: | *Akai Pty Ltd v People’s Insurance Company Limited* (1996) 188 CLR 418*Australian Competition and Consumer Commission v Valve Corp (No 3)* (2016) 337 ALR 647*Blair v Curran* (1939) 62 CLR 464*Bonython v Commonwealth* (1950) 81 CLR 486*Carl Zeiss Stiftung v Rayner & Keeler Ltd [No 2]* [1967] 1 AC 853*Coast Lines Ltd v* *Hudig & Veder NV* [1971] 2 Lloyd’s Law Reports 390*Coast Lines Ltd. v Hudig Chartering (C.A.)* [1972] 2 QB 34*Federal Treasury Enterprise (FKP) Sojuzplodoimport v Spirits International BV* [2010] FCA 1293*Haines v Australian Broadcasting Corporation* (1995) NSWLR 404*Kuligowski v Metrobus* (2004) 220 CLR 363*Merck KGaA v Merck Sharp & Dohme Corp* [2014] EWHC 3867 (Ch) *Merck KGaA v Merck Sharp & Dohme* [2016] EWHC 49 (Pat)*Merck KGaA v Merck Sharp & Dohme* [2017] EWCA Civ 1834*Mount Albert BC v Australasian Temperance & General Mutual Life Assurance Society Ltd* [1938] AC 224*O’Shane v Harbour Radio Pty Ltd* (2013) 85 NSWLR 698*Ramsay v Pigram* (1968) 118 CLR 271*Reading Australia Pty Ltd v Australian Mutual Provident Society* (1999) 217 ALR 495*Rippon v Chilcotin Pty Ltd* (2001) 53 NSWLR 198*Rogers v The Queen* (1994) 181 CLR 251*Spirits International BV v Federal Treasury Enterprise (FKP) Sojuzplodoimport* (2011) 91 IPR 438*State Bank of New South Wales Ltd v Stenhouse Ltd* [1997] Aust Torts Rep ¶81-423*Tomlinson v Ramsey Food Processing Pty Ltd* (2015) 256 CLR 507*UBS AG v Tyne* (2018) 360 ALR 184 *Virgin Atlantic Airways Ltd v Zodiac Seats UK Ltd (formerly Contour Aerospace Ltd)* [2014] AC 160*Wanganui-Rangitikei Electric Power Board v Australian Mutual Provident Society* (1934) 50 CLR 581  |
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| Date of hearing: | 28 November 2018 |
|  |  |
| Registry: | New South Wales |
|  |  |
| Division: | General Division |
|  |  |
| National Practice Area: | Intellectual Property |
|  |  |
| Sub-area: | Trade Marks |
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| Category: | Catchwords |
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| Number of paragraphs: | 97 |
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| Counsel for the Applicant/Cross-Respondent: | Mr RPL Lancaster SC with Ms JM Beaumont and Ms AE McDonald |
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| Counsel for the Respondents/Cross-Claimants: | Mr MJ Darke SC with Mr PW Flynn and Mr SJ Hallahan |
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| Solicitor for the Respondents/Cross-Claimants: | Corrs Chambers Westgarth |

ORDERS

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|  | NSD 610 of 2018 |
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| BETWEEN: | MERCK KGAAApplicant |
| AND: | MERCK SHARP & DOHME CORPFirst RespondentMERCK SHARP & DOHME (AUSTRALIA) PTY LTDSecond RespondentINTERVET AUSTRALIA PTY LTDThird Respondent |
|  |  |
| AND BETWEEN: | MERCK SHARP & DOHME CORPFirst Cross-Claimant**MERCK SHARP & DOHME (AUSTRALIA) PTY LTD**Second Cross-Claimant**INTERVET AUSTRALIA PTY LTD**Third Cross-Claimant  |
| AND: | MERCK KGAACross-Respondent |

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| JUDGE: | NICHOLAS J |
| DATE OF ORDER: | 12 July 2019 |

THE COURT ORDERS THAT:

1. The following question (“the separate question”) be determined separately and before all other questions in this proceeding:

Is the First Respondent precluded from denying that the 1970 Agreement and the 1975 Protocol (as defined in paragraphs 7 and 9 of the Further Amended Statement of Claim) are governed by the law of the Federal Republic of Germany by reason of:

* 1. estoppel; and/or
	2. abuse of process of this Court,

based on the judgments of the English Court in the UK Governing Law Decision, the UK Appeal Judgment and the UK Trial Judgment (as defined in paragraph [12] of the Court’s reasons for decision dated 12 July 2019)?

1. The separate question be answered as follows:

The First Respondent is bound by the doctrine of issue estoppel from denying that the 1970 Agreement and the 1975 Protocol (as defined in paragraphs 7 and 9 of the Further Amended Statement of Claim) are governed by the law of the Federal Republic of Germany by reason of the judgments of the English Court in the UK Governing Law Decision, the UK Appeal Judgment and the UK Trial Judgment (as defined in paragraph [12] of the Court’s reasons for decision dated 12 July 2019).

1. The applicant’s interlocutory application dated 5 October 2019 be otherwise dismissed.
2. Costs of and incidental to the interlocutory application and the determination of the separate question be reserved.
3. The proceeding be listed for a case management hearing on a date to be fixed by arrangement with the Associate to Nicholas J.

Note: Entry of orders is dealt with in Rule 39.32 of the *Federal Court Rules 2011*.

REASONS FOR JUDGMENT

NICHOLAS J

# Background

1. Before me is an interlocutory application brought by the applicant in the proceeding (“Merck”) seeking to have a number of preliminary issues determined separately and before all other issues in the proceeding.
2. The first respondent (“MSD”), the second respondent (“MSD Australia”), and the third respondent (“Intervet Australia”), oppose the determination of any separate question. Each of them submitted that it was not appropriate to consider any of the separate questions proposed by Merck at this stage and that they should be determined at the final hearing together with all other issues in the proceeding.
3. In accordance with orders made on 24 October 2018, the parties have made submissions in relation to the desirability of having the Court determine the proposed separate questions in advance of the final hearing and, in addition, as to how those questions should be answered. This will allow me to answer the separate questions in the event I am satisfied that it is appropriate to do so at this stage of the proceeding.
4. The proposed questions concern the operation of a co-existence agreement comprising two related written agreements. The first is an agreement said by Merck to have been entered into on 1 January 1970 between E Merck (the predecessor of Merck) with MSD (then called Merck & Co Inc) in Darmstadt in Germany (“the 1970 Agreement”) and a further agreement said to have been entered into on 24 November 1975 between E Merck (the predecessor of Merck) with MSD (then called Merck & Co Inc) to clarify and augment the 1970 Agreement (“the 1975 Protocol”). The 1970 Agreement and the 1975 Protocol are together referred to as “the Agreement” in the Further Amended Statement of Claim dated 3 December 2018 (“FASOC”).
5. The 1970 Agreement replaced an earlier agreement (“the 1955 Agreement”) which had been signed on or about 12 September 1955. The 1970 Agreement and the 1955 Agreement are substantially identical in their terms. Clause 12 of the 1970 Agreement stated that it “… provides for formalistic amendments caused by a change of the company name of the German party.”
6. Merck is a company incorporated in 1995 under the laws of Germany. It is the successor to the title, business rights and obligations of earlier German partnerships known as various “E. Merck KG or E. Merck (“E. Merck”).
7. MSD Australia was incorporated in Australia in April 1956. Between 1956 and November 2009 MSD was the ultimate holding company for MSD Australia. Since November 2009 the company now known as Merck & Co Inc (“Merck & Co”) has been the ultimate holding company of MSD Australia. Intervet Australia was incorporated in December 1968. Since about November 2009 Merck & Co has been the ultimate holding company for Intervet Australia. Both MSD Australia and Intervet Australia are wholly owned subsidiaries of MSD. In these reasons I shall refer to them collectively as the “MSD subsidiaries”.
8. Merck alleges that MSD has breached the Agreement by permitting MSD Australia and Intervet Australia to use in Australia the word “Merck” in breach of the Corporate Name Term. Merck is also alleged to have breached the Agreement by permitting those companies to use in Australia the word “Merck” as a trade mark.
9. Merck also alleges that MSD, MSD Australia and Intervet Australia have infringed various Australian registered trade marks owned by Merck.
10. There is an issue between the parties as to which law governs the 1970 Agreement. There is also an issue between the parties as to whether or not the 1970 Agreement contains a particular contractual term referred to in para 11 of the FASOC as the “Corporate Name Term”.
11. Merck contends that the 1970 Agreement is governed by the law of the Federal Republic of Germany (“German Law”) whereas MSD contends that it is governed by the laws of New Jersey (“New Jersey Law”).
12. Merck and MSD have been engaged in litigation in a number of jurisdictions in relation to the 1970 Agreement and the 1975 Protocol. This litigation has given rise to a number of decisions in overseas jurisdictions including the following three UK judgments in proceedings commenced by Merck against MSD, Merck & Co and three European subsidiaries (“the UK proceedings”):
* the judgment of the High Court of Justice of England and Wales in *Merck KGaA v Merck Sharp & Dohme Corp* [2014] EWHC 3867 (Ch) (“UK Governing Law Decision”);
* the judgment of the High Court of Justice of England and Wales in *Merck KGaA v Merck Sharp & Dohme* [2016] EWHC 49 (Pat) (“UK Trial Judgment”); and
* the judgment of the Court of Appeal of England and Wales in *Merck KGaA v Merck Sharp & Dohme* [2017] EWCA Civ 1834 (“UK Appeal Judgment”).

It is common ground that neither of the MSD subsidiaries (ie. the second and third respondents to this proceeding) was a party to the UK proceedings.

1. The questions postulated by Merck for separate determination are as follows:
2. Is MSD precluded from denying that the 1970 Agreement and the 1975 Protocol (as defined in paragraphs 7 and 9 of the FASOC) are governed by the law of the Federal Republic of Germany by reason of:
	1. estoppel; and/or
	2. abuse of process of this Court,

based on the judgments of the English Court in the UK Governing Law Decision*,* theUK Appeal Judgment and the UK Trial Judgment (“the Governing Law Question”)?

1. Is MSD precluded from denying that the Corporate Name Term (as defined in paragraph 11 (a) of the FASOC) was a term of the Agreement (as defined in paragraph 10 of the FASOC) by reason of:
	1. estoppel; and/or
	2. abuse of process of this Court,

based on the UK Trial Judgment and the UK Appeal Judgment (“the Corporate Name Term Question”)?

1. The paragraphs of the FASOC referred to in the relevant questions relevantly allege:

7. On 1 January 1970, E. Merck (the predecessor of Merck) entered into an agreement with MSD (then called Merck & Co., Inc.) in Darmstadt in Germany (**1970 Agreement**).

…

9. On 24 November 1975, E. Merck (the predecessor of Merck) entered into an agreement with MSD (then called Merck & Co., Inc.) to clarify and augment the 1970 Agreement (**1975 Protocol**).

…

11. In accordance with the principles of German law as to the proper construction of the Agreement, the Agreement relevantly prohibited MSD from:

(a) itself, and its subsidiaries and affiliates (as defined in the 1970 Agreement), using in Australia the word “Merck” on its own as, or as part of, its corporate, company, firm, trade or business name, or as a contraction thereof, otherwise than as expressly permitted under the Agreement (**the Corporate Name Term**); and

…

1. Paragraph 11 of the FASOC also alleges in subpara (b), that the Agreement prohibited MSD and its subsidiaries and affiliates (as defined in the 1970 Agreement), from using in Australia the word “Merck” as a trade mark. The respondents deny that the Agreement contained this additional term (“the Trade Mark Term”) although it is not picked up in the separate questions propounded by Merck. The respondents point out, correctly in my view, that the question whether the Agreement contains the Trade Mark Term is an issue that will need to be determined at the trial regardless of how the proposed separate questions are answered. If the Agreement is governed by German law (as Merck contends) then that question will most likely need to be resolved in the light of expert evidence in relation to German law.
2. Paragraph 12 of the FASOC alleges:

Under German law, each of MSD Australia and Intervet is a subsidiary or affiliate of or under the control of MSD, within the meaning of clause 1 of the 1970 Agreement, and accordingly MSD is liable for any conduct of MSD Australia or Intervet which would, if those entities were parties to the Agreement, constitute a breach of the Agreement.

1. In their defence the respondents admit that MSD entered into the 1970 Agreement, though they deny that the 1970 Agreement was entered into in Darmstadt in Germany. They assert that the 1970 Agreement is governed by the law of New Jersey and that the law of that jurisdiction is the proper law of the Agreement.
2. It is not suggested by any party that the MSD subsidiaries are parties to the Agreement or that they could be liable to Merck in this proceeding for breach of contract. Mr Lancaster SC, who appeared for Merck, made clear in his submissions that to the extent there may be any ambiguity in Merck’s pleading, Merck would amend to eliminate any conceivable ambiguity. This has now been done by the filing of the FASOC.
3. For the reasons that follow I am satisfied that it is appropriate to determine the Governing Law Question separately and before all other issues in the proceeding and that it should be answered affirmatively. I do not propose to consider the Corporate Name Term Question as a separate question. Rather, I think the most appropriate course is to determine that question along with all other issues that remain to be determined at the final hearing.

## The 1970 Agreement

1. The 1970 Agreement relevantly provides:

AGREEMENT made 1 January, 1970

between

MERCK & CO., INC. of Rahway, New Jersey, USA

and

E. MERCK of Darmstadt, Germany.

Definitions:

1 (a) “Merck & Co.” as used herein shall mean Merck & Co., Inc. and its subsidiaries and affiliates.

 (b) “E. Merck” shall mean E. Merck an “offene Handelsgesellschaft” according to German Law and its subsidiaries and affiliates.

 (c) “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.

 (d) “Germany” as used herein means the territory of the Federal Republic of Germany, of 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 these which belonged to Germany in 1935.

 (e) “The United States” as used herein means the United States and all its present territories, possessions and dependencies, including but not limited to Puerto Rico, Panama Canal Zone and Virgin Islands.

 (f) “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 of the name E. Merck in the United States and Canada by E. Merck as all or part of a firm-name or corporate name provided such names are geographically identified with Germany as follows: “E. Merck, Darmstadt, Germany” all words being given equal prominence.

 (b) E. Merck recognizes the exclusive right of Merck & Co. to the use of the trademark 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, Montrea1, 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 trademark Merck in Germany and in such country will not use or attempt to acquire rights in any trademark containing Merck.

All other countries:

4. In all other countries E. Merck recognizes that “Merck Sharp & Dohme” as a trademark or name is not confusingly similar to any of the trademarks 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 trademark, tradename or corporate name. When requested E. Merck shall so state in writing. The embellishments of design of such trademarks 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 “E. Merck” as a trademark 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. has undertaken to 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. has undertaken to discontinue all use of the following corporate names:

 Merck (Pan America) Inc.

 Industrias Pharmaceuticas Merck (Norte Americana)

 S.A. Merck & Co. (Great Britain) Ltd.

9. It is understood that the requirements of paragraph 8 hereof will be fulfilled whereever the words “Merck Sharp & Dohme” are substituted for the word “Merck”.

1. The 1975 Protocol dealt with what were referred to as some minor problems relating to the interpretation of the 1970 Agreement. It is not necessary to refer to the provisions of the 1975 Protocol in any detail. It was common ground in the UK litigation that the 1975 Protocol was governed by the same law that governed the 1970 Agreement and that the 1970 Agreement was governed by the same law as the 1955 Agreement.

## The UK Governing Law Decision

1. It is clear that the Judge who made the UK Governing Law Decision (Nugee J) was focused almost entirely on the governing law of the 1955 Agreement. This reflected the way in which the parties’ conducted the case, which led Nugee J to ask what was the system of law with which the 1955 Agreement had it closest and most real connection. Nugee J found that the 1955 Agreement was governed by German law rather than the law of New Jersey and that, since it was not disputed that the 1970 Agreement and the 1975 Protocol were governed by the same law as the 1955 Agreement, they were also governed by German law.
2. One aspect of the 1955 Agreement upon which MSD placed much reliance during the course of the UK proceedings was found in cl 12, which provided:

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.

1. Clause 12 is to be understood against the background of an earlier agreement dated 17 November 1932 (“the Treaty Agreement”) which Nugee J said formalised existing arrangements between E. Merck and Merck & Co that “in effect divided up the world between them”. The existence of the Treaty Agreement gave rise to proceedings in the US District Court for the District of New Jersey commenced by the United States Department of Justice against Merck & Co and another corporation in October 1943 which culminated in a consent decree made by Judge Foreman on 6 October 1945 (“the 1945 Decree”) that required Merck & Co to file with the Department of Justice notice of any intention to make any further agreement with E. Merck relating to or affecting the business of either defendant and allowing the parties to apply to the court for, amongst other things, amendment or modification of the terms of the decree. I mention this because the Treaty Agreement and the 1945 Decree are referred to in passages in the UK Appeal Judgment which I refer to later in these reasons.
2. An order authorising execution of the 1955 Agreement was made on 24 October 1955 (“the 1955 Order”) by the United States District Court for the District of New Jersey. Clause 12, and the need to obtain such an order, were said by MSD in the UK proceedings to weigh heavily in favour of finding that the 1955 Agreement was governed by New Jersey law.
3. Nugee J’s discussion of the relevant legal principles appears in the following six paragraphs of his Honour’s judgment which relevantly state:

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.

9. [T]he 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.

…

…

74. … Mr Hobbs’s more general point [was] 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.

…

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.

## The UK Trial Judgment

1. The trial of the proceedings in the UK took place before Norris J who ultimately granted declarations and injunctive relief. The declaratory relief granted by Norris J included a declaration that MSD had by its use of Merck’s name and mark “Merck” in the United Kingdom breached its contractual obligations contained in the Agreement. Norris J also granted a declaration that the five defendants (MSD, Merck & Co and the three European subsidiaries) had infringed various registered trade marks owned by Merck by using the sign “Merck” as a trade mark in the course of trade in the United Kingdom.
2. One point to note about the first of the declarations made by Norris J was that it did not purport by its terms to define the scope of the obligations imposed by cl 7 or any other provision of the Agreement. In particular, there was no declaration made to the effect that the Agreement contained what Merck refers to in this proceeding as the Corporate Name Term. Rather, the declaration merely declared that certain use by MSD of the Merck name and mark in the United Kingdom constituted a breach of the Agreement. So it is not possible to look at the declaration made by Norris J and conclude from its terms that there was a finding made in the UK proceedings that the Agreement contained the Corporate Name Term.
3. It was accepted, following the Governing Law Decision, that the Agreement was to be construed in accordance with German law. This required Norris J to consider an extensive body of evidence that would not usually be admissible applying English or Australian principles of construction.
4. The principal contractual issue debated at the trial before Norris J was whether the Agreement had been breached by what he referred to as Merck US. In his reasons Norris J said at [16]:

[16] At the heart of this action lies the question of how the 1970 Agreement operates in the Internet age. Merck US operates a number of websites, amongst them those having the domain names “merck.com”, “merckformothers.com, “merckresponsibility.com” and “merckmanuals.com”. These are accessible globally and employ numerous uses of the word “Merck” alone. Merck Global complains that this activity is a breach of the 1970 Agreement or is otherwise unlawful. Merck US says that these websites are targeted at US consumers, and matters of which Merck Global makes complaint are either inevitable accidental references or essentially “overspill” references to rightful use in the USA by Merck US in the course of its worldwide activities. What (if anything) does the 1970 Agreement say about such activity? If it does not provide a code which completely governs this activity, what (if anything) does English trade mark law provide by way of an answer to the dispute?

1. Although Norris J’s reasons make clear that MSD was the relevant contracting party, they do not make clear whether the activities said to have amounted to a breach of contract (including the use of the word Merck in the relevant website and email addresses) were engaged in by MSD or Merck & Co or both of them. In any event, Norris J’s reasons recognise that it was MSD that breached the contract. Whether that is because MSD itself engaged in the relevant activities or because it caused or permitted Merck & Co to do so is not clear from Norris J’s reasons.

## The UK Appeal Judgment

1. Norris J’s finding that MSD had contravened the Agreement was upheld by the Court of Appeal. Neither of the declarations made by him was set-aside, but the injunctive relief granted was.
2. The leading judgment in the Court of Appeal was delivered by Kitchin LJ (with whom Patten and Floyd LJJ agreed). A critical issue in the appeal was whether cl 7 of the 1970 Agreement applied to entity names, domain names and email addresses.
3. Kitchin LJ recorded the principal arguments for MSD (referred to in his Lordship’s reasons as Merck US with Merck referred to as “Merck Global”) in paras [118]-[121]:

[118] Mr Hobbs has vigorously attacked the judge’s findings as to the proper interpretation of the 1970 Agreement and, before it, the 1955 Agreement. He submits that from the time of the consent decree in 1945, the parties recognised that a distinction was to be drawn between the use of the word “Merck” as the name of a firm and its use as a trade mark. The insistence by the parties on this distinction is, he says, evident from the correspondence between the parties and their internal memoranda in the 1940s and 1950s; the terms of the 1955 Agreement; and the explanation of the 1955 Agreement given by Merck US to Judge Forman (the judge in the New Jersey District Court dealing with the matter) at the hearing before him in October of that year. It is clear from the transcript of the hearing, says Mr Hobbs, that the distinction between the use of the word “Merck” as a firm name and as a trade mark was fundamental to the judge’s agreement that the 1945 consent decree could be modified so far as necessary to allow the parties to enter into the 1955 Agreement.

[119] All of these matters are, Mr Hobbs argues, relevant to the proper interpretation of the 1955 and the 1970 Agreements because, as a matter of German law, it is appropriate to have regard to the areas of conflict which the agreements were intended to resolve and also to the parties’ understanding of the meaning of the terms they used.

[120] Mr Hobbs continues that, by adopting the precise terminology which they did and with which they were familiar, the parties put in place a regime which avoided the mischief of the 1932 Treaty Agreement which had been the target of the antitrust complaint and the like of which the parties were forbidden from entering into by the terms of the 1945 consent decree. The last thing the parties could have intended or that the US court would have permitted was their entry into an agreement which recognised that each party was entitled to use the name “Merck” but also prohibited them from using that name in each other’s territory regardless of the context or manner in which it might be used. That would have reinstated the prohibited 1932 Treaty Agreement, the effect of which had been unlawfully to partition the markets.

[121] Seen in this way, submits Mr Hobbs, US Merck’s undertaking in clause 7 to cancel all registrations, withdraw all applications and discontinue all use of the trade mark “Merck” was intended and understood by both parties to relate only to registered or registrable trade marks and not company names, firm names or trade names. It follows that there should have been a finding of no liability for breach of clause 7 in respect of the use of entity names, domain names and email addresses, all of which served to identify Merck US as a company and were not used as trade marks.

1. These arguments were dealt with by Kitchin LJ in some detail. His Lordship said at [132], [136], [138] and [139]:

[132] Literally interpreted, the terms of the 1970 Agreement therefore provide support for Merck US’s contention that clause 7 is concerned only with the use of the word “Merck” as a trade mark. On its face, this clause does not purport to restrict the use of the word “Merck” as or as part of a firm or corporate name. However, as I have sought to explain, the words of the agreement are not to be construed literally. Under German law, it is permissible to have regard to, among other things, the content of the negotiations leading up to the agreement and to the parties’ conduct and statements after the agreement to see what light they shed on their intentions. In addition, the parties are under an obligation to support the purpose of the agreement and to desist from all activities which might endanger its achievement.

…

[136] I accept that Merck Global went on to agree that the use by Merck US of “Merck-Sharp & Dohme” as a trade mark and trade name in countries other than Germany would also be acceptable. The parties were also of one mind that the agreement should not refer to or contain any restriction as to the use of other trade marks and names which might be adopted in the future. But the contemporary documents contain no suggestion that this would apply to the use of the word “Merck” alone. Indeed it is in my judgment beyond doubt that it was the intention of the parties and the object of the 1955 Agreement that henceforth Merck US would not use the word “Merck” on its own as a trade mark, a corporate name or as a trade or business name outside its traditional territories. This was a foundation of the 1955 Agreement, did not concern a new or future name and did not conceivably come within the scope of those matters left to be worked out at a later date or amount to what might be described in German law as an intentional gap. It also provided a foundation for clause 11 of the 1955 Agreement (and later clause 11 of the 1970 Agreement). The parties understood that their agreement would allow them to terminate all litigation pending between them at that time.

…

[138] The communications between the parties after the 1955 Agreement and later the 1970 Agreement also shed light on their intentions in entering into these agreements. In addition to the discussions between the parties about the “An Ihren Fruchten” and “Merck Manual” publications which raised special issues, each of the parties did complain to the other about the use of the word “Merck” as a corporate, trade or business name in a manner which was said to be contrary to the agreement they had reached. I have summarised a number of these complaints and the responses they generated at paragraphs [48] to [53] above. In my view they reveal that, in entering into the agreements, the parties intended that they would not henceforth use the word “Merck” on its own as a corporate, trade or business name in each other’s territories, and also that they recognised and understood that this was what they had in fact agreed. It is of some interest that this is entirely consistent with Merck US’s “Brand & Identity Guide”, details of which are set out at paragraph [54] above.

[139] For all of these reasons, I would dismiss this ground of appeal. In my judgment the judge was right to find that the 1955 and 1970 Agreements precluded Merck US from using the word “Merck” on its own as a firm or company name in the rest of the world, including the UK. Construed in context and according to German law, the scope of clause 7 was not limited to the use of the word “Merck” as a trade mark. I am satisfied that Merck US agreed that, in respect of the rest of the world, including the UK, it would not use the word “Merck” as a trade mark and also that it would not use the word “Merck” alone as a contraction of its corporate name or as a trade or business name when furthering or promoting its business to third parties.

1. The orders made by the Court of Appeal included an order remitting for rehearing in the High Court a number of issues including, relevantly, the appropriate form of any relief to be granted by way of final order in respect of the claim for breach of contract. There is nothing in the evidence to suggest that the rehearing has taken place or that any such final order has been made. The parties’ legal representatives have recently confirmed that the final order is yet to be made.

# Procedural Issues

## Rule 30.01 Federal Court Rules

1. The principles that govern the question of whether the Court should determine a separate question are well settled. They were summarised by Branson J in *Reading Australia Pty Ltd v Australian Mutual Provident Society* (1999) 217 ALR 495 when considering whether to make an order under the former rule (O 29, r 2 of the *Federal Court Rules 1979* (Cth)). Her Honour said at [8]:

[8] The principles that govern the circumstances in which an order will be made under O 29 r 2 are relatively well established. They may be summarised as follows:

(a) the term “question” in O 29 r 1 includes any question or issue of fact or law in a proceeding. The distinction in the rule between an “issue” and a “question” is the distinction between that which, when resolved, will result in an adjudication in favour of one party or the other, being an “issue”, and less decisive matters of dispute being “questions”;

(b) a question can be the subject of an order for a separate decision under O 29 r 2 even though a decision on such a question will not determine any of the parties’ rights;

(c) however, the judicial determination of a question under O 29 r 2 must involve a conclusive or final decision based on concrete and established or agreed facts for the purpose of quelling a controversy between the parties;

(d) where the preliminary question is one of mixed fact and law, it is necessary that the question can be precisely formulated and that all of the facts that are on any fairly arguable view relevant to the determination of the question are ascertainable either as facts assumed to be correct for the purposes of the preliminary determination, or as agreed facts or as facts to be judicially determined;

(e) care must be taken in utilising the procedure provided for in O 29 r 1 to avoid the determination of issues not “ripe” for separate and preliminary determination. An issue may not be “ripe” for separate and preliminary determination in this sense where it is simply one of two or more alternative ways in which an applicant frames its case and determination of the issue would leave significant other issues unresolved;

(f) factors which tend to support the making of an order under O 29 r 2 include that the separate determination of the question may:

(i) contribute to the saving of time and cost by substantially narrowing the issues for trial, or even lead to disposal of the action; or

(ii) contribute to the settlement of the litigation;

(g) factors which tell against the making of an order under O 29 r 2 include that the separate determination of the question may:

(i) give rise to significant contested factual issues both at the time of the hearing of the preliminary question and at the time of trial;

(ii) result in significant overlap between the evidence adduced on the hearing of the separate question and at trial — possibly involving the calling of the same witnesses at both stages of the hearing of the proceeding. This factor will be of particular significance if the court may be required to form a view as to the credibility of witnesses who may give evidence at both stages of the hearing of the proceeding; or

(iii) prolong rather than shorten the litigation.

(citations omitted)

1. Her Honour (at [9]) said that, ultimately, the issue for the Court to determine when consideration is being given to the making of an order under the rule is whether it is “just and convenient for the order to be made”. The same principles apply to r 30.01 of the *Federal Court Rules* *2011* (Cth).
2. One situation in which it may be appropriate to determine an issue by way of separate question is when it concerns the effect of a previous judgment or order of another court or tribunal on a party’s ability to re-litigate an issue. As Edmonds J observed in *Federal Treasury Enterprise (FKP) Sojuzplodoimport v Spirits International BV* [2010] FCA 1293:

[19] Of course, the starting point is that in the ordinary course all issues of fact and law should be determined at the one time. The authorities abound with statements of caution as to the ordering of questions for separate determination, particularly where matters of fact are raised by such questions which are difficult to segregate as issues distinct from the remainder of the proceedings. Nevertheless, there remain cases in which separate questions are plainly in the interests of efficient case management. Issue estoppel and its related doctrines are routinely considered by way of separate questions in Australian courts. They provide suitable subject matter for separate determination, as the inquiry is confined to the effect of the previous judgment, rather than addressing any evidence as to the underlying facts. Indeed, it would usually subvert much of the benefit of those doctrines to delay their consideration until trial, as the parties would be put to the cost of litigating the previously decided issues in the meantime. Where those matters involve the determination and application of foreign law, and they have been decided in the foreign jurisdiction by courts at the highest level, that purpose is all the more compelling.

(citations omitted)

1. Leave to appeal against his Honour’s decision to order separate questions under O 29, r 2 in that case was refused: see *Spirits International BV v Federal Treasury Enterprise (FKP) Sojuzplodoimport* (2011) 91 IPR 438.

## Abuse of process

1. In the present case Mr Darke SC, who appeared for the respondents, submitted that the order for separate determination sought by Merck, if made, was not likely to result in any significant saving of time or costs because it would still be open to the MSD subsidiaries to contest the issues at the trial that Merck seeks to have determined as preliminary questions. In essence, his submission was that since neither of the MSD subsidiaries was a party to the UK proceedings, neither of them could be bound by any issue estoppel arising out of any findings made in those proceedings which could preclude them from asserting in this proceeding that the Agreement is governed by German law.
2. I do not accept that submission.
3. For reasons which I will later explain, I am satisfied that MSD is bound by the UK Court’s determination of the proper law of the Agreement by virtue of the doctrine of issue estoppel. The question raised by Mr Darke SC’s submission is then whether it is open to the MSD subsidiaries to contend at the final hearing that the Agreement is governed by New Jersey law. I do not think it is.
4. In *Tomlinson v Ramsey Food Processing Pty Ltd* (2015) 256 CLR 507 (“*Tomlinson*”) the plurality (French CJ, Bell, Gageler and Keane JJ) referred to the three forms of estoppel which could result from a final judgment in an adversarial proceeding including that usually referred to as issue estoppel. Their Honours said of issue estoppel at [22]:

… Estoppel in that form operates to preclude the raising in a subsequent proceeding of an ultimate issue of fact or law which was necessarily resolved as a step in reaching the determination made in the judgment. The classic expression of the primary consequence of its operation is that a “judicial determination directly involving an issue of fact or of law disposes once for all of the issue, so that it cannot afterwards be raised between the same parties or their privies” …

(footnotes omitted)

1. Their Honours had earlier referred (at [17]) to “privity of interest” and Barwick CJ’s observation in *Ramsay v Pigram* (1968) 118 CLR 271 at 279 that the “basic requirement of a privy in interest is that the privy must claim under or through the person of whom he is said to be privy.” This principle, which their Honours noted was expressed more narrowly than it has been in the UK and a number of other jurisdictions, provided context to the doctrine of abuse of process as it had developed in Australia. Their Honours said at [24]-[26]:

[24] To explain contemporary adherence to the comparatively narrow principle in *Ramsay v Pigram*, it is appropriate also to explain the relationship between the doctrine of estoppel and the doctrine of abuse of process as it has since come to be recognised and applied in Australia. The doctrine of abuse of process is informed in part by similar considerations of finality and fairness. Applied to the assertion of rights or obligations, or to the raising of issues in successive proceedings, it overlaps with the doctrine of estoppel. Thus, the assertion of a right or obligation, or the raising of an issue of fact or law, in a subsequent proceeding can be simultaneously: (1) the subject of an estoppel which has resulted from a final judgment in an earlier proceeding; and (2) conduct which constitutes an abuse of process in the subsequent proceeding.

[25] Abuse of process, which may be invoked in areas in which estoppels also apply, is inherently broader and more flexible than estoppel. Although insusceptible of a formulation which comprises closed categories, abuse of process is capable of application in any circumstances in which the use of a court’s procedures would be unjustifiably oppressive to a party or would bring the administration of justice into disrepute. It can for that reason be available to relieve against injustice to a party or impairment to the system of administration of justice which might otherwise be occasioned in circumstances where a party to a subsequent proceeding is not bound by an estoppel.

[26] Accordingly, it has been recognised that making a claim or raising an issue which was made or raised and determined in an earlier proceeding, or which ought reasonably to have been made or raised for determination in that earlier proceeding, can constitute an abuse of process even where the earlier proceeding might not have given rise to an estoppel. Similarly, it has been recognised that making such a claim or raising such an issue can constitute an abuse of process where the party seeking to make the claim or to raise the issue in the later proceeding was neither a party to that earlier proceeding, nor the privy of a party to that earlier proceeding, and therefore could not be precluded by an estoppel.

1. In the present case it was not suggested by Mr Lancaster SC that the MSD subsidiaries were privies of MSD. In those circumstances, if the MSD subsidiaries are precluded from asserting that the Agreement is governed by New Jersey law, it could only be because the doctrine of abuse of process precludes them from doing so: *Virgin Atlantic Airways Ltd v Zodiac Seats UK Ltd (formerly Contour Aerospace Ltd)* [2014] AC 160 at [25]. In a paragraph of the judgment in that case cited by the plurality (at [26]) in *Tomlinson*, Lord Sumption SCJ (at [25]) described abuse of process as “a concept which informs the exercise of the court’s procedural powers” with the “underlying purpose of limiting abusive and duplicative litigation.”
2. The plurality in *Tomlinson* also referred at [26] to the decision of the New South Wales Court of Appeal in *O’Shane v Harbour Radio Pty Ltd* (2013) 85 NSWLR 698 (“*O’Shane*”) at [99]-[111] where Beazley P referred in some detail to the relevant authorities and the purposes of the doctrine of abuse of process. Her Honour said at [103]-[106]:

[103] In *Batistatos v Roads and Traffic Authority of New South Wales* [2006] HCA 27; (2006) 226 CLR 256, the plurality (Gleeson CJ, Gummow, Hayne and Crennan JJ) at [15] accepted as correct the statement of McHugh J in *Rogers v The Queen* (1994) 181 CLR 251 at 286 that:

 “Although the categories of abuse of procedure remain open, abuses of procedure usually fall into one of three categories: (1) the court’s procedures are invoked for an illegitimate purpose; (2) the use of the court’s procedures is unjustifiably oppressive to one of the parties; or (3) the use of the court’s procedures would bring the administration of justice into disrepute.”

[104] Their Honours (at [15]) also quoted with approval McHugh J’s further comment in Rogers at 286 that whilst in most cases an abuse of process involved the commencement of proceedings, there could be an abuse of process in relation to any procedural step taken in the course of proceedings that had been properly commenced. See also *PNJ v The Queen* (2009) 83 ALJR 384 at [3].

[105] The relevance, for present purposes, of an abuse of process not being dependent upon the existence of an estoppel, is that a court may intervene to prevent an abuse, notwithstanding that the subsequent proceedings are not between the same parties or their privies. As the authorities state, the court will act upon an abuse of process where the use of the court’s procedures would bring the administration of justice into disrepute.

[106] *State Bank of New South Wales Ltd v Stenhouse Ltd* [1997] Aust Torts Rep ¶81-423 at 64,077 involved an attempted relitigation of an issue that had already been decided between the plaintiff and a third party in an earlier proceeding. Factors considered (at 64,089) by Giles CJ Comm D in determining whether there was an abuse relevantly included: the importance of the issue in and to the earlier proceedings; the terms and finality of the finding as to the issue sought to be relitigated; the identity between the relevant issues in the two proceedings; the extent of the oppression and unfairness to the other party if the issue is relitigated, the impact of the relitigation upon the principle of finality and on the public confidence in the administration of justice; as well as the overall balance of justice between the parties.

1. In *Rippon v Chilcotin Pty Ltd* (2001) 53 NSWLR 198 Handley JA (with whom Mason P and Heydon JA agreed) referred with apparent approval to the decision of Giles CJ in Comm Div in *State Bank of New South Wales Ltd v Stenhouse Ltd* [1997] Aust Torts Rep ¶81-423 (at 64,077) and his Honour’s enumeration of matters relevant to abuse of process. These matters are (at least for present purposes) adequately summarised in *O’Shane* in the passage at [106] which I have set out.
2. The proper law of a contract has been defined as “that law which the English or other Court is to apply in determining the obligations under the contract”: *Mount Albert BC v Australasian Temperance & General Mutual Life Assurance Society Ltd* [1938] AC 224 at 240.
3. Implicit in the notion of the proper law of a contact is the existence of one legal system to which the parties must turn for the purpose of ascertaining the scope and content of their contractually defined rights and obligations. That is not to say that everything to do with the contract will be governed by its proper law. However, as Evatt J explained in *Wanganui-Rangitikei Electric Power Board v Australian Mutual Provident Society* (1934) 50 CLR 581 Evatt J at 604:

It is quite correct … that a transaction may in certain respects, such as the mode of performance, be governed by the law of one country although it is governed by the law of another country in other respects. For instance, the present debentures are payable in New South Wales to the holder for the time being, and, although the governing law of the transaction is that of New Zealand, the form of currency which may be lawfully tendered to the holder will be determined by the local law in force in New South Wales. But this does not mean that there are two different systems of law which can simultaneously govern and determine the general obligation of the contract, including the question of interpretation whether what has been done amounts to a performance of the obligation of the contract. On the contrary, the whole theory which lies at the root of private international law, however difficult that theory may be in application, is that the law of one country, and one country alone, can be the proper or governing law of the contract ; so that, to pursue the illustration given, although the law of country A is the proper or governing law of the contract, and the law of country B may be referred to in order to determine the method and incidents of performance of the contract, this is because the law of country A itself requires or concedes that the methods and incidents of performance should depend upon the law in force at the locality of performance, that is, country B.

1. It may be possible for the parties to a contract to expressly or impliedly provide that different legal systems will apply to different aspects of their contracts. But in the absence of any provision to that effect it is difficult to see how a contract could ever be said to have more than one proper law.
2. In the present case I am satisfied that to permit the MSD subsidiaries to deny in this proceeding that German law is the proper law of the Agreement would be to permit them to engage in an abuse of process.
3. The factors which lead me to conclude that the doctrine of abuse of process precludes the MSD subsidiaries from asserting in this proceeding that the Agreement is governed by New Jersey law rather than German law are as follows:
* For reasons discussed below, MSD is itself precluded by the doctrine of issue estoppel from denying in this proceeding that the Agreement is governed by German law.
* The MSD subsidiaries are and were, at the time the UK proceedings were heard and determined, wholly owned subsidiaries of MSD. In the absence of evidence to the contrary, it may be inferred that they were then, and remain, under the control of MSD.
* Although the Agreement purports to regulate the use of the relevant trade marks in all parts of the world including Germany, the USA, the UK, and Australia by E. Merck, MSD and their respective subsidiaries and affiliates, none of the subsidiaries or affiliates is a party to the Agreement.
* The proper law of the Agreement was a critical issue in the UK proceedings. The meaning and effect of the provisions of the Agreement that were in issue in the UK proceeding depended on whether it was governed by German law or New Jersey law. The finding made by Nugee J that the proper law of the Agreement was German law was not challenged in the subsequent appeal.
* There is no public policy reason why this Court should not give effect to the UK Court’s determination of the proper law of the Agreement. It would in my view be unjustifiably oppressive to E. Merck and also likely to bring the administration of justice into disrepute to permit the MSD subsidiaries to re-litigate the issue of the proper law of the Agreement or to permit MSD to allow them to do so.
1. Mr Darke SC relied upon the decision of Hunt CJ at CL in *Haines v Australian Broadcasting Corporation* (1995) 43 NSWLR 404 (“*Haines*”) in which his Honour said (at 414) that for the doctrine of abuse of process to apply:

… The issue determined in the earlier case which is sought to be litigated in the later case must be one which the party propounding it in the latter lost in the former. The principle does not work in reverse to enable the party who won the issue in the earlier case to prevent it being litigated in the later proceedings by someone who was not a party in the former.

1. This passage was relied upon in support of the submission that no issue estoppel arose in the present case because the party propounding it in this proceeding (Merck) succeeded in obtaining a finding in the UK proceedings that the Agreement was governed by German law.
2. In *Rogers v The Queen* (1994) 181 CLR 251 it was held that it was an abuse of process for the prosecution to tender records of interview which were rejected as inadmissible (on the ground that they were not show to have been made voluntarily) at a first trial of an accused on a number of criminal charges at a second trial of the same accused on a number of charges relating to other offences. The decision in that case is therefore inconsistent with the first sentence of the passage in *Haines* relied upon by Mr Darke SC.
3. It may be, as is suggested in the second sentence of the relevant passage, that Hunt CJ at CL was referring only to circumstances in which the second proceeding was brought by or against a person who was a party to a first proceeding by or against a person who was not a party to the first proceeding. But even if the passage is read in that way, it is still inconsistent with more recent authority which does not impose any such requirement: see in particular, *Tomlinson* at [40] per French CJ, Bell, Gageler and Keane JJ and *UBS AG v Tyne* (2018) 360 ALR 184 (“*UBS*”) at [62] per Gageler J.
4. Mr Darke SC also submitted that if the MSD subsidiaries are precluded from denying in this proceeding that the proper law of the Agreement is German law then this will result in the MSD subsidiaries having been denied any opportunity to be heard on the question of what is the proper law of the Agreement. There is no substance to this submission.
5. The MSD subsidiaries do not have an unfettered right to be heard in this proceeding. In particular, they do not have a right to be heard at trial in support of contentions of fact or law that they are precluded from advancing.
6. The fact that a party to a second proceeding who is said to be precluded from advancing contentions of fact or law based on findings made in an earlier proceeding to which he or she was not a party may thereby be denied an opportunity to be heard on a particular issue is a matter that may be relevant to the question whether that party would be engaging in an abuse of process if he or she attempted to re-litigate that issue. However, in the present case this is a matter to which I give no weight. The UK proceedings were fully contested by MSD and there is no evidence before me to suggest that the MSD subsidiaries, even if they were to have been parties to the UK proceedings, would have wished to rely on any evidence or submission beyond what was relied upon by MSD.
7. In *UBS* the plurality (Kiefel CJ, Bell and Keane JJ) said at [45]:

The courts must be astute to protect litigants and the system of justice itself against abuse of process. It is to hark back to a time before this Court's decisions in [*Aon Risk Services Australia Ltd v Australian National University* (2009) 239 CLR 175] and *Tomlinson* and the enactment of s 37M of the [*Federal Court of Australia Act 1976* (Cth)] to expect that the courts will indulge parties who engage in tactical manoeuvring that impedes the “just, quick and efficient” resolution of litigation. To insist, for example, on “inexcusable delay” as a precondition of the exercise of the power to stay proceedings as an abuse of process is to fail to appreciate that any substantial delay is apt to occasion an increase in the cost of justice and a decrease in the quality of justice. And other litigants are left in the queue awaiting justice. Further, there is no reason why the courts should tolerate attempts to manipulate other parties and the courts themselves by the deployment, by a single directing mind and will, of different legal entities under common control for such a purpose. The concern is as to whether the processes of the court are being abused. Given that this is the central concern, the circumstance that the abuse is effected by the use of multiple entities orchestrated by a single mind and will is no reason to tolerate it.

1. The observations in this passage are particularly relevant in this case where MSD is both itself, and through its wholly owned subsidiaries, seeking to re-litigate the proper law of the Agreement for no reason other than that MSD disagrees with the UK Governing Law Decision.

## Issue Estoppel

### General Principles

1. The law in relation to issue estoppel was discussed by Dixon J in *Blair v Curran* (1939) 62 CLR 464 in the well-known passage at 531-532. His Honour stated (at 531) that “[a] judicial determination directly involving an issue of fact or of law disposes once for all of the issue, so that it cannot afterwards be raised between the same parties or their privies.” His Honour said at 532:

Nothing but what is legally indispensable to the conclusion is thus finally closed or precluded. In matters of fact the issue estoppel is confined to those ultimate facts which form the ingredients in the cause of action that is, the title to the right established.

1. See also the passage in *Tomlinson* at [22] to which I have previously referred and *Kuligowski v Metrobus* (2004) 220 CLR 363 (“*Kuligowski*”). In that case the High Court referred with approval to the speech of Lord Guest in *Carl Zeiss Stiftung v Rayner & Keeler Ltd [No 2]* [1967] 1 AC 853 (“*Carl Zeiss*”)at 935 who stated that, for the doctrine of issue estoppel to apply, three requirements had to be satisfied:

(1) … the same question has been decided; (2) … the judicial decision which is said to create the estoppel was final; and, (3) … the parties to the judicial decision or their privies were the same persons as the parties to the proceedings in which the estoppel is raised or their privies.

1. In *Kuligowski* the High Court also referred with approval (at [40]) to the following passage in the judgment of Barwick CJ in *Ramsay v Pigram* at 276:

Long standing authorities, in my opinion, warrant the statement that, as a mechanism in the process of accumulating material for the determination of issues in a proceeding between parties, an estoppel is available to prevent the assertion in those proceedings of a matter of fact or of law in a sense contrary to that in which that precise matter has already been necessarily and directly decided by a competent tribunal in resolving rights or obligations between the same parties in the same respective interests or capacities, or between a privy of each, or between one of them and a privy of the other in each instance in the same interest or capacity. The issue thus determined, as distinct from the cause of action in relation to which it arose, must have been identical in each case.

1. In the present case MSD did not dispute that the judicial decisions which are said to have created the issue estoppels against it were final and that both it and Merck were parties to those decisions. The only question in dispute as between MSD and Merck in relation to the existence of an issue estoppel was whether the first of the three requirements referred to by Lord Guest in *Carl Zeiss* was satisfied.

### The Proper Law of the Contract

1. The respondents’ submissions focused on the question of whether the issue determined in the Governing Law Decision was the same as that which must be determined in this proceeding. It was submitted by them that, so far as governing law is concerned, the question determined in the UK proceedings and that which arises in this proceeding are not identical because the determination of that question in the UK proceeding was based upon English law which they contend is different from Australian law.
2. It is apparent from the judgment of Nugee J that his Honour determined the proper law of the Agreement by reference to “the system of law with which the transaction has the closest and most real connection” in accordance with the English common law rules.
3. As the plurality observed in *Akai Pty Ltd v People’s Insurance Company Limited* (1996) 188 CLR 418 (“*Akai*”) at 434, the phrase “closest and most real connection” is drawn from the well-known statement by Lord Simonds who delivered the opinion of the Privy Council in *Bonython v Commonwealth* (1950) 81 CLR 486. His Lordship said at 498:

… the substance of the obligation must be determined by the proper law of the contract, ie. the system of law by reference to which the contract was made or that with which the transaction has its closest and most real connection. In the consideration of the latter question, what is the proper law of contract, and therefore what is the substance the obligation created by it, it is a factor and sometimes a decisive one that a particular place is chosen for performance.

1. When determining what is the governing law of a contract in a case where a choice of law cannot be inferred, it is proper to have regard to a number of matters including the places of residence or business of the parties, the place of contracting, the place of performance and the nature and subject matter of the contract: *Akai* at 437.
2. The respondents submitted that the law in the UK is different from Australia. In particular, they refer to what they described as the principle discussed in *Coast Lines Ltd. v Hudig Chartering (C.A.)* [1972] 2 QB 34 (*Coast Lines*) which they said did not form part of the law of Australia.
3. *Coast Lines* was a decision of the English Court of Appeal (Lord Denning MR, Megaw and Stephenson LJJ) on appeal from Roskill J: see *Coast Lines Ltd v* *Hudig & Veder NV* [1971] 2 Lloyd’s Law Reports 390. The question was whether a voyage charterparty between the English owner of the vessel and the Dutch charterers for a carriage of cargo from Rotterdam in Holland to Drogheda in Ireland was governed by English or Dutch law. Roskill J found that English law was the proper law of the contract. His decision was affirmed unanimously by the Court of Appeal. Each member of the Court gave separate reasons.
4. Lord Denning MR said that to determine the proper law of the contract it was necessary for the Court to ask what is the system of law with which the transaction has the closest and most real connection? His Lordship took into account a number of considerations in concluding that the contract was governed by English law including that the contract was made in Rotterdam by Dutch charterers for shipment at Rotterdam. A further consideration that his Lordship took into account was that the contract contained an exemption clause which was valid under English law but invalid under Dutch law. This was a consideration that he considered important and one that pointed to English law as the proper law of the contract.
5. Megaw LJ said at 46-47:

What is the proper law of the contract? In this charterparty the parties did not express their actual intention as to the proper law. No inference can be drawn from any one or more of the express terms of the contract as to the actual common intention of the parties. Hence the question to be answered is: what is the system of law with which the transaction has its closest and most real connection? This test has its origin with Professor Westlake: see *Cheshire’s Private International Law*, 8th ed. (1970), at pp. 199, 200, 202. It was first adopted by Lord Simonds in delivering the judgment of the Privy Council in *Bonython v. Commonwealth of Australia* [1951] A.C. 201, 219. A decade later it was accepted explicitly for purposes of English private international law by the House of Lords in *In re United Railways of Havana and Regla Warehouses Ltd.* [1961] A.C. 1007: see Lord Denning’s speech at p. 1068, and that of Lord Morris of Borth-y-Gest at p. 1081. It has recently been reaffirmed in *Compagnie Tunisienne de Navigation S.A. v.* *Compagnie d’Armement Maritime S.A.* [1971] A.C. 572 , in which Lord Reid, at p. 583F, Lord Morris of Borth-y-Gest at p. 587E and Lord Diplock at p.603H, accepted and applied the *Bonython* test of the closest and most real connection with the transaction.

I think it is not without significance to note that the connection which has to be sought is expressed to be connection between the *transaction* - that is, the transaction contemplated by the contract – and the system of law. That, I believe, indicates that, where the actual intention of the parties as to the proper law is not expressed in, and cannot be inferred from, the terms of the contract (so that it is impossible to apply the earlier part of the *Bonython* formula: “the system of law by reference to which the *contract was* made”) more importance is to be attached to what is to be done under the contract - its substance - than to considerations of the form and formalities of the contract or considerations of what may, without disrespect, be described as lawyers’ points as to inferences to be drawn from the terms of the contract.

With which system of law did this transaction - the business transaction of the provision of a ship which would carry goods from Rotterdam to Drogheda - have its closest and most real connection? The owners were English; the charterers were Dutch. The charterparty, having been negotiated across the seas, was dated “Rotterdam.” It was only in that somewhat technical sense that the contract was “made” there. It was in the English language. In the light of the uncontradicted evidence, that is not a matter of great weight in this case in favour of the English legal system. The fact that the freight and demurrage were expressed in sterling deserves slightly greater weight, though, again, it is not a strong factor in the light of the evidence. The loading of the vessel was to take place in Rotterdam and bills of lading were to be issued there. To that extent performance of the obligations of the contract was connected with the Netherlands. So far as the bills of lading were concerned, it might well be that the fact that they were issued in Rotterdam in respect of goods loaded there would be a conclusive, or at least a powerful, indication that the proper law of the contracts to which they might give rise would be the law of the Netherlands. But different considerations apply to the two types of contract - charterparty contracts and bill of lading contracts, as is indeed evidenced by the Hague Rules, based on international convention …

1. His Lordship went on to consider the flag, registration, and ownership of the vessel, all of which, in his Lordship’s view, pointed to the proper law of the contract being English. His Lordship said at 47-48:

It may be suggested that this is to bring back into English private international law a presumption – the presumption of the law of the flag – as prima facie determinant of the proper law. Presumptions, once fashionable during the earlier development of English private international law, are now, whether for good or for ill, out of fashion and rejected. That, indeed, is a necessary result of the adoption of the “closest and most real connection” test. No single factor is to be treated as, prima facie, providing the answer. I would go so far as to say that in a charterparty case the flag of the vessel is likely normally to be important. But it must be considered along with all the other relevant factors. Weighing it, as best I can, with and against the other relevant aspects of this transaction, I think that the result is as I have indicated. Therefore English law is the proper law of the charterparty contract.

1. Stephenson LJ said at 50:

… The parties have not expressed their actual choice of the proper law to govern this contract. So the court has to infer the intention, which they have not expressed and one of them would probably disclaim, from the terms and the nature of the contract and from the relevant contemporary circumstances; or, if that is impossible, to ascertain the country and system of law with which the contract and transaction have the closest and most real connection: *Whitworth Street Estates (Manchester) Ltd. v. James Miller and Partners Ltd.* [1970] A.C. 583 and *Compagnie Tunisienne de Navigation S.A. v. Compagnie d’Armement Maritime S.A.* [1971] A.C. 572. I think that the insertions of “the country” and “the transaction” in this formulation of Professor Cheshire’s so-called “localisation” test have the significance respectively attributed to them by Lord Reid in the former case, at p. 604, and by Megaw L.J. in the instant case.

Which country and system of law is that? This question has now to be answered without the help of any presumptions and simply by weighing all the elements and circumstances of the contract and its contemplated performance and deciding on which side the scale tips.

1. In his submissions Mr Darke SC placed emphasis upon the judgment of Megaw LJ whose reasons were referred to by Nugee J at [74] of the Governing Law Decision. In particular, it was submitted that, for the purpose of determining the governing law of the Agreement, Nugee J applied a principle based on *Coast Lines* which holds that what is to be done under the contract is more important than matters of form, and that this led Nugee J to give greater weight to the place of performance of the contract than to other matters such as the residence of the parties, their place of business, and the place of contracting. Mr Darke SC submitted that under Australian law the Court does not give the place of performance any more weight than other factors.
2. There are a number of observations to make in relation to Mr Darke SC’s submissions.
3. First, I do not think *Coast Lines* is authority for the principle that the Court must give greater weight to the place of performance than other factors when ascertaining the proper law of a contract. I will come to the reasons of Megaw LJ in a moment, but there is no suggestion in the reasons of either Lord Denning MR or Stephenson LJ that they endorsed or applied any such principle. In fact, what the Court of Appeal’s decision stands for, in my opinion, is that the question of what is the proper law of the contract is not to be determined by reference to any presumptions and is to be determined, in the words of Stephenson LJ, “… simply by weighing all the elements and circumstances of the contract and its contemplated performance and deciding on which side the scale tips.” The approach taken by Lord Denning MR was to the same effect.
4. Secondly, Megaw LJ’s reasons state that, where actual intention cannot be inferred, “… more importance is to be attached to what is to be done under the contract – its substance, than to considerations of the form and formalities of the contract”. It is clear that his Lordship was not purporting to lay down any new principle. In my view, properly understood, what his Lordship was saying was that where the actual intention of the parties could not be inferred from the terms of the contract, more importance was to be attached to what was to be done under the contract than to matters of mere form and formality. That observation must be read in the context of the facts of that case where the contract was expressed to have been made in Rotterdam even though it had been negotiated across the seas. As is apparent from the judgment of Roskill J, the contract was expressed to have been entered into in Rotterdam even though the negotiations for the contract were done by telephone between Cardiff and Rotterdam: see [1971] 2 Lloyd’s Law Reports at 391.
5. Thirdly, it is apparent that Nugee J did not purport to apply any principle of law that holds that any particular matter is of greater importance, or must be given greater weight, than any other that must be weighed in the balance when deciding what is the governing law of a contract.
6. It is important to look at [74] of Nugee J’s reasons closely. In that paragraph his Honour was dealing with the submission made on behalf of MSD that the requirement imposed by cl 12 of the 1955 Agreement was of “paramount importance” for the purpose of determining the governing law. His Honour did not accept that submission and found that what was to be done under the contract, once it was entered into, was more important than the steps leading up to entry. That finding formed part of an evaluative exercise which took into account all relevant matters connected with the contract: see *Australian Competition and Consumer Commission v Valve Corp (No 3)* (2016) 337 ALR 647 at [71] per Edelman J.
7. A consideration of Nugee J’s reasons as a whole indicates that his Honour gave more weight to some factors than others not because he considered himself bound to do so as a matter of principle, but because he considered it appropriate to do so in all the circumstances. That seems to me to have involved a perfectly orthodox approach involving the weighing up of various factors and a decision on his Honour’s part to give more weight to the overall subject matter of the contract as opposed to one matter, significant though it may have been, concerned with the coming into existence of a binding agreement. In my view Nugee J did not apply an approach that was, as a matter of legal principle, any different from that which would be applied by an Australian court applying the Australian common law.
8. Mr Lancaster SC also submitted that, even if Nugee J did apply a test that was different from that to be applied under Australian law, his finding that the Agreement was governed by German law would still give rise to an issue estoppel as between Merck and MSD. This is because, as I understood his submission, it is sufficient that the question of what is the governing law of the Agreement has already been determined in the UK proceedings and the fact that a different test may have been applied in reaching that conclusion is neither here nor there.
9. Mr Lancaster SC’s submission finds some support in the decision of the English Court of Appeal in *The Sennar (No 2)* [1984] 2 Lloyd’s Law Reports 142. That case concerned an exclusive jurisdiction clause in a bill of lading which provided that the proper law was Sudanese law and that all actions under the contract of carriage shall be brought before the Court of Khartoum or Port Sudan and that no other court would have jurisdiction with regard to any such action. The plaintiffs brought an action in Rotterdam which was stayed by reason of the exclusive jurisdiction clause. Subsequently, the plaintiffs brought an action in the United Kingdom. One of the questions that arose was whether the plaintiffs were bound by an issue estoppel preventing them from denying that the Court of Khartoum and Port Sudan had exclusive jurisdiction. The Court of Appeal held that that the plaintiffs were bound by an issue estoppel to that effect. Kerr LJ observed that this would be so even if the Dutch courts had applied the wrong system of law (ie. Dutch law rather than Sudanese law) in determining whether the relevant clause of the bill of lading conferred exclusive jurisdiction on the Court of Khartoum and Port Sudan. That observation is consistent with the judgment of Staughton J in *Tracomin SA v Sudan Oil Seeds Co Ltd* [1983] 1 Lloyd’s Law Reports 560 at 567-569. See also *Armacel Pty Ltd v Smurfit Stone Container Corporation* (2008) 248 ALR 573 at [71]-[74] per Jacobson J.
10. Of course, the questions decided in the two proceedings must be the same. The same question that arose in the UK proceeding arises for decision in this proceeding: what is the proper law of the Agreement? If this question had been decided by a court in Germany in an earlier proceeding brought between the same parties and in respect of which the German court had jurisdiction then it seems to me an issue estoppel would also have arisen even if the German court applied a different test from that applied in the UK or Australia for the purposes of determining the proper law.
11. Accordingly, whilst it is not necessary for me to express a definitive opinion on the topic, I think the authorities support Mr Lancaster SC’s submission.
12. The advantages of dealing with the Governing Law Question now rather than at the trial are to my mind significant. The determination of the Governing Law Question as a separate question will ensure that costs are not wasted by requiring, or allowing, the parties to prepare and adduce evidence on an issue that I am satisfied MSD and the MSD subsidiaries are not entitled to litigate in this proceeding. It will also avoid a situation in which the parties may consider it necessary to call expert evidence in relation to New Jersey law which should now be understood to be irrelevant to the proper construction of the Agreement in this proceeding given the answer that will be given to the Governing Law Question.
13. In the result, I am satisfied that the Governing Law Question should be decided separately and before all other issues in the proceeding and that it should be answered by stating that MSD is precluded by reason of the doctrine of issue estoppel from denying that the Agreement is governed by German law.

## The Corporate Name Term

1. There is in my view good reason not to make an order for the separate determination of the Corporate Name Term Question.
2. For an issue estoppel to arise in relation to the Corporate Name Term it is necessary for Merck to establish that the UK proceedings gave rise to a determination as to the existence of the Corporate Name Term which was indispensable to the outcome of those proceedings.
3. As I previously indicated, the declaratory relief granted by Norris J does not establish the existence of the Corporate Name Term. The UK proceedings have been remitted to determine what further relief should be granted in respect of (inter alia) the claim for breach of contract. Whether or not this will extend to further declaratory relief, or any injunctive relief, in respect of breach of contract is not clear. However, the terms of such relief may provide greater clarity as to the precise content of the terms of the Agreement which MSD was found to have breached.
4. In his submissions Mr Lancaster SC took me to various findings made in the UK proceedings that were said to establish the existence of the Corporate Name Term either expressly or by implication. These included, most relevantly, the findings made in paras [136] and [139] of the judgment of Kitchin LJ.
5. The use of the expression “Merck US” (which was defined in the judgment of both Norris J and Kitchin LJ to encompass all of the defendants in the UK proceedings) makes it difficult to say whether the breach of the Agreement referred to in the relevant declaration was attributable to the activities of MSD, Merck & Co Inc or the European subsidiaries. The reasons of Norris J and Kitchin LJ suggest that it may have been MSD’s own activities that gave rise to the breach rather than those of MSD’s subsidiaries or affiliates. This would suggest, as was submitted by Mr Darke SC, that there was in fact no necessary determination made in relation to the activities of MSD’s subsidiaries or affiliates or the scope of any contractual term that purported to restrict the activities of MSD’s subsidiaries or affiliates.
6. None of that is to say that the Agreement may not contain the Corporate Name Term or that support for its existence cannot be found in the UK Trial Judgment or the UK Appeal Judgment. But that is not the same as saying that a finding as to the existence of the Corporate Name Term was necessary and indispensable to the outcome of the UK proceedings. It may be that once the final order is made in the UK proceedings, it will be open to find that it was. However, in circumstances where the final order is yet to be made, I do not think it appropriate to order that the Corporate Name Term Question be dealt with by way of separate question. In my view, it should be decided at the trial along with all other remaining issues including whether the Agreement contained the Trade Mark Term.
7. The costs of the interlocutory application will be reserved.
8. There will be orders accordingly.

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| I certify that the preceding ninety-seven (97) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Nicholas. |

Associate:

Dated: 12 July 2019