Tort jurisdiction and pure economic loss – Request preliminary ruling

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In January, the Dutch Court of Cassation referred several questions on Article 5(3) Brussels I Regulation to the CJEU for a preliminary ruling (Case C-12/15), including the questions how a court should establish 1) whether an economic loss is an 'initial loss' or a 'consequential loss' and 2) in which country economic losses occur.

Briefly stated, the facts of the case are as follows. In 1998, Universal Music International Ltd (part of the Universal Music Group) and Czech record company B&M agreed upon the purchase of 70 per cent of the shares of B&M by companies within the Universal Music Group. In addition, parties agreed that in 2003, Universal would buy the remaining 30 per cent. In the draft version of the Letter of Intent, the intended purchase price of all shares equalled five times the annual profit of B&M. For the drafting of the definitive share option agreement regarding the 30 per cent of the shares, the Universal Music Group turned to Czech law firm A. On 5 November 1998, a share option agreement was concluded by Universal Music International Holding B.V. (hereafter: Universal Music), seated in the Netherlands, B&M and its shareholders. However, due to an alleged mistake of A.'s employee in the drafting of the agreement, the price Universal had to pay for the shares was increased radically. In 2003 Universal Music bought, as agreed, the remaining 30 per cent of the shares. It calculated, on the basis of the intended purchase price, that it should pay about 313,000 euros. B&M's shareholders, however, calculated the price of the shares on the basis of the formula in the final agreement, resulting in an amount of more than 30 million euros. Parties went to arbitration and in 2005 Universal Music and B&M's shareholders settled their dispute for 2.6 million euros.

Universal Music then commenced legal proceedings before the court of Utrecht (the Netherlands) against the law firm and its employee for the amount of 2.7 million euros, being the difference between the intended price of the shares and

the settlement plus the costs for the arbitration proceedings and the settlement. The defendants argued that the Utrecht court did not have jurisdiction. In first instance, the court denied jurisdiction, on the basis that none of the facts giving rise to the damage occurred in the Netherlands and that the connection with the Netherlands was too weak to accept jurisdiction. The Court of Appeal followed this decision and held that the court of the place where pure economic loss was suffered cannot accept jurisdiction on the basis of Article 5(3) Brussels I Regulation. Universal Music then filed an appeal in cassation.
The Court of Appeal's ruling is in line with the majority opinion long held in Dutch scholarship that the place of (initial) pure economic loss cannot be considered the place where the damage occurred or the 'Erfolgsort'. Although one could argue that the CJEU already in its 2004 decision in Kronhofer (C-168/02) suggested otherwise, the Dutch Court of Cassation deemed it necessary to ask for a preliminary ruling on this topic. However, taking into consideration the recent CJEU decision in Harald Kolassa v. Barclays Bank plc (C-375/13), which was published after the Court of Cassation referred its questions to the CJEU, it is likely that the matter will be viewed as an 'acte éclairé', since the CJEU rules that the court of the place where pure economic loss occurred as a direct consequence of misleading information in a prospectus, can establish jurisdiction on the basis of Article 5(3) Brussels I Regulation. The Kolassa judgment also provides an affirmative answer to one of the other questions of the Court of Cassation, namely whether the court in deciding on its jurisdiction should also take into account the defendant's arguments regarding jurisdiction.

However, the two remaining questions referred to the CJEU for a preliminary ruling have not yet been answered. The Court of Cassation informs how a national court should establish whether the damage should be considered initial economic loss or consequential economic loss, and how a national court should establish whether the economic damage has occurred in its territory. In the case at hand, the question is whether the difference between the intended share price and the settlement eventually paid and the costs related to arbitration and settlement should be regarded as initial economic loss, and if so, if the Netherlands should be considered the place where the damage occurred, since these costs were paid at the expense of Universal Music's assets (bank account) located in the Netherlands.

Since the boundaries between initial and consequential economic loss can be hard

to delineate and the localisation of pure economic loss often raises problems, it would be useful if the CJEU would provide courts with more guidance. It will be interesting to see whether the CJEU is willing to extent its ruling in Kolassa to all pure economic loss cases and adopt as a general rule that in cases of pure economic loss the Erfolgsort is the place where the victim suffers the loss to its assets, in this case the bank account from which the amount was transferred. Yet, the CJEU could also rule that the Kolassa judgment should be interpreted restrictively and that it only applies to private investors suffering economic damage on their investments due to misinformation.

To be continued…