

Rec'd: 4.7.77.

IN THE SUPREME COURT OF NEW ZEALAND  
CHRISTCHURCH REGIS.

NO. A.84/77

BETWEEN EUROPE STRENGTH FOOD COMPANY  
PROPRIETARY LIMITED a duly  
incorporated company having  
its office in Prahran,  
Victoria, Australia, and  
carrying on business as  
confectionery manufacturer

Plaintiff

A N D A.B. CONSOLIDATED LIMITED a  
duly incorporated company  
having its registered office  
in Christchurch, New Zealand,  
and carrying on business as  
biscuit and confectionery  
manufacturer

Defendant

Hearing: 23 June 1977  
Judgment: 29 JUN 1977  
Counsel: E.W. Thomas and Mrs H. Dawson for Plaintiff  
in support  
A.D. Holland for Defendant to oppose

---

JUDGMENT OF ROPER J.

---

I shall refer to the parties as "Europe" and "A.B.". In the early 1970's Europe commenced the manufacture of health food bars, a line of confection containing various fruits and nuts combined in some cases with either nougat or caramel. It seems that at that time no one in New Zealand was manufacturing anything in that line and in about July 1974 Europe investigated the possibility of a joint venture in New Zealand with A.B. and Van Camp Chocolates Ltd of Auckland. That idea came to nothing but in October 1974 Europe suggested that it might be prepared to grant A.B. a franchise to produce the health bars for distribution in New Zealand. Negotiations continued up until April 1976 when the proposed scheme foundered, primarily I think because the parties could not agree on the rate of royalty. In August 1976 A.B. told Europe that it intended in due course to manufacture health bars "but it will not be

producing 'Europe brand lines'. A.B.'s production of health bars began in September 1976.

Europe has now sought an injunction to restrain A.B. from manufacturing health bars in so far as the manufacture is dependent upon the use by A.B. (whether wittingly or unwittingly) of confidential information relating to the methods of manufacture made available by Europe in the course of the franchise negotiations; and in so far as A.B.'s products are calculated to deceive the public that they are the products of the Plaintiff. In short, Europe's causes of action are "breach of confidence" and "passing off".

In support of its allegation of "breach of confidence" Europe has now moved for an order that it be at liberty to enter A.B.'s factory for the purpose of inspecting the manufacturing processes employed by A.B. in the production of its range of health bars. The motion sought inspection by a director and production director of Europe, a Mr Van Camp, who is closely associated with Europe for his company is now licensed to make Europe's health bars in New Zealand, an independent expert witness to be nominated by Europe, and counsel. By the time the motion came before me Europe's advisers had apparently recognised the injustice that might result from inspection of A.B.'s processes by persons directly associated with Europe and what is now proposed is inspection by one or more of three named independent food technologists who, it is said, have no connection with any food manufacturer in either Australia or New Zealand.

The application for inspection is brought pursuant to R.478 of the Code of Civil Procedure to which Mr Thomas sought to apply the rules and procedure applicable to inspection in patent cases.

Rule 478 provides:-

" 478. Detention, preservation, or inspection of property the subject of action - The Court or a Judge, on the application of any party to an action, and on such terms as may seem just, may make any order for the detention, preserva-

tion, or inspection of any property which is the subject of the action or in respect of which any material question may arise in the action, and for all or any of the purposes aforesaid may authorise any person or persons to enter upon or into any land or building in the possession of any party to such action, and for all or any of the purposes aforesaid may authorise any samples to be taken, or any observation, measurement, or plans to be made, or experiment to be tried, which may seem necessary or expedient for the purposes of obtaining full information or evidence."

It was accepted by Counsel that there are no decided cases under that rule concerning inspection of a manufacturing process such as is sought here, and indeed under the corresponding English rule of practice (Order 29 rule 2) inspection of a method of manufacture was refused in Tudor Accumulator Co. Ltd v. China Mutual Steam Navigation Co. Ltd [1930] W.N. 200. In that case both Scrutton and Lawrence L.JJ. were of the view that a method of manufacture was not "property" within the rule. The wording of the English rule is so similar to our own R.478 that one might have thought that the same might have been said in the present application, but Mr Holland was prepared to concede that R.478 gave jurisdiction and I am content to decide the matter on that basis. Even if Mr Holland had not made that concession I feel that I would have adopted Mr Thomas' submission that in this day and age the Court, in the interest of justice, should not adopt a timid and restrictive interpretation of procedural provisions. There is support for that liberal approach in the judgment of Woodhouse J. in Snow v. Hawthorn [1969] N.Z.L.R. 776.

I understood Counsel to be agreed that R.478 gives the basic jurisdiction to order inspection, but that if inspection is ordered then the safeguards which are applied in an inspection in a patent case should be applied here. That would mean that the inspecting expert (s) would be required to undertake not to divulge A.B.'s own trade secrets, nor to communicate their findings to anyone other than Plaintiff's counsel. An order for destruction of all

notes upon completion of the action might also be appropriate and it might mean that Counsel would also be required to give a suitable undertaking.

The general rule in patent cases is that inspection of a Defendant's manufacturing process will be ordered more or less as a matter of course where the Plaintiff establishes a prima facie case of infringement, and Mr Thomas argued that it would be appropriate to apply the same principle in a breach of confidence case. He went further and submitted that even if Europe has not at this point established a prima facie case inspection should still be ordered on the ground that there was "a substantial and genuine issue" to be tried. He relied on British Xylonite Coy Ltd v. Fibrenyle Ltd [1959] R.P.C. 252. In that case Romer L.J. said at page 263:-

" On the other hand, it is not necessary, and it would be indeed undesirable from many points of view, especially I think from the point of view of the Judge who will eventually try this action, for this Court to hold or indeed express any view as to whether a prima facie case of infringement has been established if one regards the evidence as a whole, the evidence of the plaintiffs and the evidence of the defendants. As Astbury, J., said in the case of British Thomson-Houston Coy., Ltd. v. Duram, Ltd., supra, an order for inspection will normally go as of course if a prima facie case of infringement is established; but, in my judgment, it is not necessary in all cases for a plaintiff, a patentee, to go as far as that. Provided that the Defendants' interests are properly and adequately safeguarded, as the Defendants will be under the order which my Lord has indicated, I think that a Plaintiff should be allowed inspection if the Court is satisfied that there really is a substantial and genuine issue to be tried. It is, of course, perfectly true that inspection should never be ordered on a mere fishing application, but when, as here, an experienced and well-known independent expert swears that he believes that there has been infringement and gives reasons of some significance to support that belief, I see no reason why the order should not be made, even though the Defendants' expert gives reasons, also of substance, challenging the views of the Plaintiffs' technical adviser."

I think all that case decided was that the "prima facie" rule will not be applied, and inspection will be ordered, where the affidavit evidence has produced an impasse and the best, or possibly the only way of solving

the difficulty is by inspection.

It is my opinion that in the instant case Europe has not made out a prima facie case of breach of confidence, and neither has an impasse been reached. We have not yet reached the point where there is no way Europe can establish its case without inspection.

I assume for the purposes of this exercise that some confidential information was passed, or at least came to A.B.'s notice before negotiations for a franchise broke down, although it is not altogether clear from the affidavits just what that information was. Europe then points to the circumstance that whereas A.B. had not previously made health bars it was turning them out within a short time after negotiations broke down, and invites the inference that A.B. must have used the confidential information obtained from Europe to accomplish that. I do not regard that line of reasoning as entirely sound. Assuming confidential information was passed then I think the strongest evidence of breach of confidence so far available is to be found in the affidavit of 17th June 1977 of Mr Van Camp, although he could hardly be called an "independent" expert. He expressed the "firm belief" that A.B. has made use of confidential information supplied by Europe. His grounds for that belief may be summarised thus:-

1. An earlier visit to Europe's factory by two members of A.B. in the course of the franchise negotiations would have been of great value, and the information gained would have been "undoubtedly used" in A.B.'s subsequent production.

2. The appearance of A.B.'s health bars is very similar to Europe's in shape, texture and consistency.

3. A.B. has chosen to manufacture bars having identical or very similar names.

4. The production of a range of food bars requires a good deal of time and experimentation to achieve.

All that really amounts to is an assertion by a trade competitor of A.B. that as A.B. had acquired confidential information it must have used it. A.B.'s Production Director, General Manager, Manager of Research and Company Secretary all deny that confidential information was used, and indeed that anything in the nature of confidential information was ever made available. I think I am correct in saying that in the patent cases where inspection is in issue the Court has the advantage of affidavits from independent experts in the field, who are able to express a belief, perhaps by examination of a finished product, or by other means, apart from inspection, that a patent has been infringed. If a prima facie case is then made out on the affidavits (or if the Court is left in the situation where inspection is the only way of resolving an otherwise insoluble problem (as in the British Xylonite case)) inspection will be ordered. Apart from the affidavit of Mr Van Camp there is no such evidence in this case.

I must agree that in outward appearance the products of the two companies (which are annexed to affidavits) do have a certain similarity, enhanced perhaps by the mode of packing, but are they truly comparable? If I had had before me an affidavit by an independent food technologist, who had analysed A.B.'s products, and considered their composition, ingredients, texture, quality, "chewiness", and taste (and whatever other criteria such experts apply) and expressed the belief that A.B. could not have accomplished that result in the time available without recourse somewhere along the line to Europe's confidential procedures, I would have been inclined to make the order sought.

I note that in his affidavit of 15th April 1977 Mr Schibli, Europe's Production Director, confirms that other manufacturers in Australia have produced a form of health bar, but none have been similar in taste and quality to the Europe product. It would be interesting to know whether A.B.'s product suffers from the same drawbacks, but short of running the risk of being charged with unlawfully

tampering with evidence there seems to be no way in which I can find out.

In the result I do not propose to make the order sought. It may be, as Mr Holland conceded, that the time may come when inspection will be necessary and I therefore adjourn the application sine die with costs reserved.

Solicitors:

Russell, McVeagh, McKenzie, Bartleet & Co., Auckland, for  
Plaintiff  
Wynn Williams & Co., Christchurch, for Defendant