

IN THE HIGH COURT OF NEW ZEALAND

A. 1314/84

AUCKLAND REGISTRY

**No Special
Consideration**

1623

BETWEEN

ULTRONICS INDUSTRIES
LIMITED

PLAINTIFF

A N D

VIDEO FORCE (N.Z.)
LIMITED

FIRST DEFENDANT

A N D

ULTRONIC INDUSTRIES
AUSTRALIA (PTY) LIMITED

SECOND DEFENDANT

A N D

BARRY LEONARD DUNCAN

THIRD DEFENDANT

A N D

NOEL MULLALLY

FOURTH DEFENDANT

Judgment: 13 DECEMBER 1984

Hearing: 3 December 1984

Counsel: B.I.J. Cowper for Plaintiff
J. Beech for Four Defendants

JUDGMENT OF CASEY J.

The Plaintiff ("Ultronics N.Z.") has issued a writ alleging breach by the Defendants of copyright in the designs and plans of Orion brand video cassette recorders imported and sold by them from 31st October 1984. It seeks an injunction and it further claims damages for breach of contract and other sums alleged to be due to it. It moves for an interim injunction to restrain the Defendants from importing and dealing with the recorders, supported by a lengthy affidavit from Mr Wong, its Marketing Consultant.

Orion video recorders are manufactured in Japan by the Orion Electric Co. Ltd. and sold through Otake Trading Co. Ltd. which he says is the exclusive sales representative for the Orion company, and is described as its Sales Division. These products were sold in New Zealand by a company known as Ovro (V.H.S.) Ltd. but there was no formal license arrangement with Orion, which ceased supplying its products in the early part of 1984 because Ovro would not order in container lots as required. Mr Duncan was employed by the latter company as its Sales and Marketing Director in New Zealand over this period; prior to that he had been employed in Australia by the Second Defendant, Ultronic Industries Australia (Pty) Ltd ("Ultronic Australia"). From the Defendants' affidavits it emerges that he had been sent across by that company which claimed to have held the Australasian distribution rights for Orion products, in order to establish and run the New Zealand market and the Ovro company was formed for that purpose.

Ultronic N.Z. was established by Messrs Wong and Beric in May 1984 to bring in and market the Orion products. The former said this was done on the understanding from Mr Duncan that he could arrange through the Ultronic Australia for sole distribution of Orion products in New Zealand and the latter became the new company's General Manager and Secretary. Mr Wong also says they believed the Australian company was in a position to secure this sole distribution right for the Plaintiff, which agreed to pay it a commission of 4% on all units imported into New Zealand and in fact \$19,993.41 was duly remitted in respect of two shipments. The first of 250 units came from the Australian company, while in June 1984 a further 650 units were imported direct from Japan.

Mr Wong went on to say that about August 1984 Ultronic became concerned that other companies might be able to deal with these recorders and therefore approached Ultronic Australia for assurance about the licensing arrangements, but failed to get a satisfactory answer. He said it then

approached the Japanese buying house of Okura & Co. Ltd. and received advice that the Australian company did not have any right to grant an exclusive license for New Zealand and the Plaintiff therefore severed all buying connection with the latter and demanded a refund of the commission paid. It then took steps to secure the exclusive rights to sell Orion products directly from its Japanese principals, dealing first with Okura and accepting its assurances that Ultronic N.Z. had sole rights of selling in this country. Further shipments of recorders were received in September and October 1984.

Mr Wong became dissatisfied with Mr Duncan's management of the company and said he called a meeting on 29th September 1984 at which the latter was present. He was supposed to have left on a business trip to Wellington on 1st October but nothing more was heard from him until he wrote on 10th October 1984 severing his connection immediately. It was believed he had taken company property and the police were informed. This led to a search of his premises which yielded very little. Mr Wong alleges that parts estimated at \$20,389 have not been accounted for and they are included in the claim. It is clear from the affidavits that on 29th September 1984 Mr Duncan and Mr Mullally had flown to Japan and spoken to a Mr Hatada of Otake.

Mr Mullally is a shareholder and Director in Ultronic Australia. He deposed that Mr Hatada was told the Plaintiff company had breached its agreement to pay commission and that Ultronic Australia wanted to establish another agency in New Zealand involving only Mr Duncan and himself, and that Mr Hatada agreed, indicating that he was meeting Mr Beric of the Plaintiff company next day, and would suggest that it accept videos with a different brand name. This would recognise the efforts that Mr Mullally's company had made to promote the Orion name in Australia and New Zealand. He says that relying on this arrangement with Otake, Mr Duncan resigned from the Plaintiff company and they formed Video Force (N.Z.) Ltd. in which they hold all the shares. That

company has been dealing with Orion products since October 1984, having at present 200 units in New Zealand with another 400 en route, constituting an investment of \$600,000.

The affidavits from him and Mr Duncan traverse many of the allegations and suggestions made by Mr Wong but, as I indicated to Counsel, it is not my task at this stage to resolve factual disputes. However, it clearly emerges from the latter's affidavit that the Plaintiff did indeed approach Otake, and instead of getting the limited arrangement to deal with Orion products under another name, it received exclusive rights to deal with them under the Orion brand name in New Zealand. As a result of its suspicions about Mr Duncan's activities, it obtained a letter from Otake dated 6th November 1984 signed by Mr Hatada reading as follows:-

"Ultronic Industries Ltd. of New Zealand has sole and exclusive right to sell, market and distribute "ORION" brand video in New Zealand providing Ultronic Industries Ltd. purchase more than 5,000 units for next one year from 1st of November, 1984.

However, OTAKE TRADING CO., LTD. has right to terminate this agreement unconditionally, unilaterally at any time after 1st of November, 1985."

Ultronics N.Z. relies on this letter as a partial assignment of its copyright by the Japanese manufacturer, or as an exclusive license to deal with it in New Zealand.

It is not disputed that Japan is a "convention country", and that the provisions of s.49 (1) of the Copyright Act, 1962 apply. Nor was it disputed that dealing with the videos could amount to an infringement of copyright in original drawings and designs from which they were made. In terms of s.6(2), that infringement will occur if any person, not being the owner of the copyright, and without the licence of the owner thereof, does or authorises another person to do any of the restricted acts mentioned in s.7 relating to artistic works, and these include reproduction of it in any

material form, and publication thereof. The publication alleged here is selling the copyright work reproduced in a three-dimensional form. There is no doubt that if Orion Electric Co. Ltd. is the owner of copyright in the designs and plans then it could effect a partial assignment of, or grant a license limited to one or more of the restricted acts, or in respect of the country of operation or as to time (s.55(2)).

Section 56(3) provides that no assignment (whether total or partial) "shall have effect unless it is in writing signed by or on behalf of the assignor." There is a corresponding provision in s.26(9) relating to "exclusive license" which is defined as one in writing signed by or on behalf of an owner of copyright and authorising the licensee to the exclusion of all other persons, including the grantor of the license, to exercise a right which would otherwise be exercisable exclusively by the latter. Such a licensee is given by s.26(1) the same rights of action and is entitled to the same remedies under s.24 (which generally gives the owner the right to sue for an infringement) as if the license had been an assignment. However, by s.26(3), the owner must be joined in the action in cases in which they have concurrent rights, but this does not affect the granting of an interlocutory injunction. In this case the Japanese company has not yet been joined.

The first matter is whether the Plaintiff has passed the threshold test of demonstrating an arguable case or a serious question to be tried. As I have indicated, it relies on the Otake letter quoted above and said to be written on behalf of the Orion company as a partial assignment, or as granting an exclusive license to it, of the latter's copyright in the designs and plans of Orion videos for New Zealand for a minimum term to 1st November 1985. I am satisfied that the earlier telex and letter from Plaintiff's buying house and agent, Okura, do not comply with the provisions of the Act because they cannot be regarded as having been written on behalf of Orion.

Mr Beech made the preliminary submission that there was insufficient evidence to support a claim of copyright in the Japanese Orion company. He pointed out that the Plaintiff had not given particulars of the plans or designs in which copyright is claimed, nor of the dates they were prepared, or the names of the persons who prepared them, which he said was normal in this kind of application. Nor was there any evidence of first publication in Japan by it. Accepting that the claim of copyright is traversed by the Defendants, I have no doubt these matters will need to be covered in the substantive action. However, all I am concerned with is the existence of an arguable case and the affidavits put in by both sides clearly acknowledge the exclusive relationship of the Japanese company with these goods as their manufacturer, and Mr Wong states in para. 3 that it designed them. In the ordinary course of commercial experience, this is enough for me to infer the necessary existence of plans and designs in which that company will have copyright, and of first publication by it in Japan. The whole point of an interlocutory injunction is to deal with a situation in which the applicant fears irreparable harm if its remedy is delayed until it has assembled all its evidence to have the action fully tried in Court.

Mr Beech referred to the pleading in the Statement of Claim that ownership of copyright in New Zealand shifted to the Plaintiff on 5th September 1984. That was the date of the first telex from Okura and I have already held it was ineffective to transfer any rights. The relevant date on the evidence before me can only be 6th November 1984, when Otake's letter was written. Mr Beech said there is nothing to indicate any authority by Orion to that company enabling it to assign or license the copyright. I have already referred to Mr Wong's description of their relationship, and clearly both parties have demonstrated in their dealings with Otake full acceptance of its authority from Orion Electric Co. Ltd. to handle the distribution of the latter's products by allocating exclusive territories and generally exercising the functions

one would expect to see carried out by the owner of copyright. It seems from Mr Mullally's affidavit that he believed Ultronic Australia had obtained the same kind of exclusive rights for Australia and New Zealand as the Plaintiff now claims for this country. I am satisfied that the evidence and the inferences to be drawn from it point to the likelihood of the Plaintiff being able to establish that Otake had the appropriate authority.

Mr Beech's next submission was that the letter of 6th November was merely an exclusive selling or distribution agreement, not intended to confer or affect copyright. I was referred to a number of authorities in which the effect of documents relied on as assignments has been discussed. It is clear that no particular wording or formality is required, and equally clear that each case must be resolved in the light of its own circumstances. Mr Cowper pointed out that the Otake letter spells out very clearly the sole and exclusive right granted to Ultronic N.Z. to do exactly what is encompassed by the notion of "publishing" the copyright works in their three-dimensional form in New Zealand.

The circumstances in which this letter was requested and written clearly support the intention to be derived from its language - namely, that it was meant by Otake to fit into the framework of New Zealand copyright law as either an assignment or a license of Orion's rights. I think the Plaintiff has demonstrated a case to copyright protection for these videos in New Zealand on the terms stated in the letter, from 6th November 1984. The position would, of course, have been put beyond doubt if Orion Electric Co. Ltd. had also sued as Plaintiff. I have noted that it must be added as a Plaintiff or Defendant if the letter is to be regarded as only a license - a point that is not necessary for me to decide in these proceedings. Having regard to its very clear terms and the circumstances under which it was written, I would be surprised if that company declined to support the view that it intended to give the Plaintiff the protection

afforded by its own copyright in the market exclusively assigned to it.

None of the Defendants contend that they have anything comparable in writing from Otake or Orion. Messrs Mullally and Duncan emphasised that Japanese business is conducted on hand-shake terms only, and this was the basis of their belief that Otake had given their interests selling rights in this market. Whatever the position might have been, in the light of Otake's letter of 6th November they cannot maintain that company intended them to have any New Zealand rights after that date. Mr Mullally suggested that Mr Hatada was induced to change his mind by misrepresentations made to him about Mr Duncan's conduct in regard to the matters reported to the police. This may be so, but it is also possible that Mr Hatada's reaction could be the result of his approach to obtain New Zealand rights for himself and Mr Mullally while he was still General Manager of Ultronic N.Z. Whatever Mr Duncan's views about the latter's conduct in relation to Ultronic Australia, I think most people of any commercial integrity would find it hard to condone his actions over this period.

Mr Cowper next referred me to s.10 of the Act dealing with infringement by importation, on the basis that the New Zealand goods are sold to the Defendant companies by overseas suppliers having the right either to make them or deal with them. Questions have been raised about the proper interpretation of this section, which makes it an infringement for anybody not licensed by the owner of the copyright to import an article into New Zealand, or deal with such an article if, to his knowledge, the making of it would have constituted an infringement "if the article had been made in the place into which it was imported". I have had the benefit of reading the judgment of Prichard J. in Barson Computers (N.Z.) Ltd. & Others v. John Gilbert & Co. Ltd. (Auckland A. 444/84; 28th June 1984) and respectfully agree with his conclusion at p.41:-

"The scheme to be spelt out of the legislation is that the interests of the person who owns the copyright in the country of importation are to be protected from deperadation through the activities of importers who seek to bring into that country copies of the protected goods to be there sold in competition with those sold by the owner of copyright or by his exclusive licensee or appointed sole distributor."

I am therefore satisfied that the Plaintiff has demonstrated an arguable case. Having regard to the claims by both sides to operate in the New Zealand market, shown on the affidavits to be highly competitive with other makes of videos, I do not think damages could provide an adequate remedy to either. The Plaintiff's rights are limited in terms of the letter and are subject to the condition that it must buy more than 5,000 units during the year. It therefore runs the risk of losing its exclusive right, and whatever valuable connection that might lead to in future with the manufacturer, should the Defendants be allowed to make inroads into its market. It would be almost impossible to assess damages for the loss of these privileges or expectations.

Mr Linn, Plaintiff's Auckland Sales Manager, also deposes in some detail about the adverse effect the competing claims by the Defendants to an agency are having on the market. Although some of his statements are contested they have the support of common sense. It seems to me very likely that retailers would be very concerned to deal with the manufacturer's acknowledged representative for servicing and parts as well as for guarantee of deliveries. In this context I note that the Plaintiff is honouring warranty commitments on units sold through the previous distributor, Ovro. In such a competitive field there can be no easy way of calculating the sales that would have come to the Plaintiff had it not been for the disruption of its market by the Defendants' activities. Similarly, there would be major problems in attempting to calculate the share of the market which the First Defendant might have achieved if an injunction is granted now which later turns out to be unjustified.

It therefore becomes necessary to consider the balance of convenience, a term discussed by May L.J. in Cayne v. Global Natural Resources p.l.c. (1984) 1 All .E.R. 225, 237:-

"It is only thereafter, if damages after a trial are thought to be inadequate, that one is then enjoined to look at what is described as the 'balance of convenience'. That is the phrase which, of course, is always used in this type of application. It is, if I may say so, a useful shorthand, but in truth, and as Lord Diplock himself made clear in the NWL case, the balance that one is seeking to make is more fundamental, more weighty, than mere 'convenience'. I think that it is quite clear from both cases that, although the phrase may well be substantially less elegant, the 'balance of the risk of doing an injustice' better describes the process involved."

I find this approach helpful in weighing up the conflicting interests which have been put before me in this case. The Defendants assert that Ultronic N.Z.'s motive throughout has been to avoid payment of the 4% commission to the Australian company, which was instrumental through Mr Duncan in having it established in New Zealand to market the Orion videos after Ovro's dealership had ended. Mr Mullally claims that the Australian company spent a large sum in advertising and promoting the product, although it is not at all clear from his affidavit whether anything was directly aimed at the New Zealand market or whether any effect here would simply be simply spill-over from the efforts in Australia. Nevertheless I accept that Mr Duncan was sent over here to promote the product and initially it was anticipated that both Ultronic companies would work closely with each other.

Mr Duncan claims that he made it clear to the principals of the Plaintiff company right from the outset that any rights conferred on them by Ultronic Australia originated only in a gentlemen's agreement with the Japanese, and he was assured that they would not try and circumvent the commission

arrangement. He says he knew nothing about Ultronic N.Z.'s cancellation of the arrangements of 5th September, after it claimed to have found that the Australian company could not give any satisfactory assurances about a long-term exclusive dealership in New Zealand. He points particularly to the hardship he would suffer if an injunction were granted. He brought his family from Australia and settled in New Zealand in order to promote Orion here and his whole livelihood is wrapped up in the new company he has formed with Mr Mullally. Both have devoted resources to getting this company's name established in New Zealand and in marketing the products, and all this will be lost if an injunction is granted.

According to Mr Wong, the Plaintiff's principals were misled by the initial assurances from Mr Duncan of an exclusive market in committing themselves to this enterprise, and its problems were compounded by his actions in working hand in glove with Ultronic Australia to deprive it of the benefits of the agreement they made with the Japanese suppliers, while he was still its General Manager and Secretary. In reliance on its exclusive position in the New Zealand market it has continued to import videos in sufficient numbers to meet the total of 5,000 required for the year, and unless the Defendants are stopped, their competition will seriously affect its share of the market and put its future connection with Orion at risk.

It is difficult to feel too much sympathy with Mr Duncan who went into the new situation with his eyes open and took the obvious risk of a counter-attack by the New Zealand company. I cannot solve in these proceedings the rights and wrongs of the situation between these parties and the Japanese companies, but Otake's letter of 6th November stands by itself and clearly indicates that the Plaintiff has its blessing for the next twelve months at least as the exclusive distributor in this country of Orion products. One can assume the company will not encourage an unauthorised competitor to

interfere with the Plaintiff's efforts in the market now granted to it, and for this reason the benefit the Defendants hope to obtain if allowed to continue trading may prove illusory. Having regard to the terms of that letter I think the balance of convenience lies in allowing the Plaintiff the benefit of what has been so clearly promised to it. It is tilted further in its favour by the real risk of the arrangement being terminated next November if it cannot meet the quota imposed by the Japanese company as a result of Defendants' competition.

I therefore conclude that an injunction in the terms sought should be granted until the further order of the Court, but I am inclined to accept Mr Beech's submission that it should not apply to the 200 units brought in by Ultronic Australia for the First Defendant. Mr Mullally said that the first notice the Defendants had of the Otake/Plaintiff arrangement was the solicitor's letter of 31st October, and Mr Beech pointed out that the question of copyright was not raised until the proceedings were issued on 20th November. Accordingly there seems to be no question of deliberately flouting known rights with that shipment. There will be an order in terms of the motion for interim injunction with costs reserved, and with leave reserved to either party to apply on three day's notice for any further order or directions in relation to these 200 units, if they cannot reach agreement about them

M. J. Casey

Solicitors:

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