8

IN THE HIGH COURT OF NEW ZEALAND
CHRISTCHURCH REGISTRY

97/221

M 560/96

BETWEEN GLENALBANY HOLDINGS LTD

Applicant

AND NEW ZEALAND PASTORAL AGRICULTURE RESEARCH INSTITUTE LTD

Respondent

Hearing: 11 March 1997

Judgment: 13 MAR 1997

Counsel: J J Brandts-Giesen for Applicant
G J Toebes for Respondent

RESERVED DECISION OF MASTER VENNING

The Applicant seeks orders setting aside two statutory demands issued against it by New Zealand Pastoral Agricultural Research Institute Ltd (AgResearch).

The first demand is for the sum of $45,000 for the supply of 200 kilograms of Deer Essence Concentrate (DEC) supplied with an invoice of 31 October 1995. The second notice demands payment of the sum of $47,722.50 for services provided to the Applicant by AgResearch in relation to the analysis of DEC and the development of a production process for it.

The application is made under s290 of the Companies Act 1993. Section 290(4) provides:

> "The Court may grant an application to set aside a statutory demand if it is satisfied that -
> (a) There is a substantial dispute whether or not the debt is owing or is due; or
> (b) The company appears to have a counterclaim, set-off, or cross-demand and the amount specified in the demand less the amount of the counterclaim, set-off, or cross-demand is less than the prescribed amount; or
> (c) The demand ought to be set aside on other grounds."

There is no dispute at all that the debt in the first demand is owing. In his affidavit in reply Mr Bellaney, the managing director of the Applicant, acknowledges that he accepts the invoice for that sum. As to the debt in the second demand, again Mr Bellaney accepts two items in it are owing (totalling $5,550 plus GST) but he denies the balance of the second demand. The basis of the dispute is not clear from either of the affidavits filed by Mr Bellaney. Mr Brandts-Giesen submitted there were substantial disputes between the parties. The matters referred to by him, however, were factual disputes as to the composition of DEC and AgResearch's actions, and do not amount to a dispute, let alone a substantial one, that the debts are owing. The Applicant cannot make out the first ground under s290(4)(a).

In this case I am satisfied that the real question is whether the Applicant can satisfy the Court that it appears to have a counterclaim set-off or cross-demand.

The onus is on the Applicant to satisfy the Court that it appears to have a counterclaim. In *Rennie v Prospect Resources Ltd* (unreported, M 14/95, HC Greymouth, 03/11/95) Tipping J put the test this way:

> "When it comes to a cross or counterclaim it can perhaps be put this way; that the crossclaim must first be bona fide arguable and second that it must have a sufficient link with the admitted debt as to make it appropriate to set aside the statutory demand. The link does not have to be immediate and indeed there can in certain

circumstances be quite unrelated crossclaims which it will be just to call in aid to prevent the statutory demand from proceeding."

Background

To determine these issues it is necessary to consider the background to the relationship between the parties.

The Applicant says that it conceived the concept of deer essence concentrate (DEC). It approached AgResearch to carry out research on DEC in order to refine the process for production of DEC. By fax of 19 August 1994 the Applicant set out its position and clearly stated its claim to ownership of the concept, noting AgResearch were engaged to manufacture the product and provide technical expertise to refine the product to meet the specifications of the Applicant's customers. AgResearch replied by memorandum. It acknowledged that the Applicant had brought the idea of deer bone extract to it, but stated that the concept of meat and other related extracts had been around for a long time. AgResearch also acknowledged that the Applicant and AgResearch jointly owned the intellectual property to the point where the extract could be produced using product information mentioned in an interim production agreement between the parties, but claimed for AgResearch the trade secrets concerning equipment, design and process design for large scale commercial production of DEC. Finally, the memorandum on behalf of AgResearch concluded that:

> "AgResearch would agree not to develop any similar product as the DEC produced for Glenalbany, but only in relation to deer bone extracts. Otherwise this is too restrictive on our science programmes, and other R & D projects."

The relationship between the parties continued during 1994 and 1995. In 1995 a third party entered the picture. A company operating in Hong Kong, Health Food Enterprise Ltd (HFE), was interested in DEC. HFE approached AgResearch and was referred to the Applicant for discussions. The Applicant says it already had been in contact with HFE but the important point is

that HFE's intention was to buy DEC to make essence of deer drink. There then followed correspondence between HFE, the Applicant and AgResearch.

The discussions between HFE and the Applicant reached the point where on 17 November 1995 HFE confirmed they would buy DEC from the Applicant at $242 per kilogram. They also confirmed that for the three years 1996-1998 a total of 4 500 kilograms would be bought in all. The DEC was to be produced by AgResearch. HFE anticipated a formal purchase order would be completed recording the details of agreement. It may be the parties had a concluded agreement: *Masters v Cameron* (1954) 91 CLR 353, but for present purposes the letter from HFE on 17 November 1995 is, at least, clear evidence of the intention of that company to enter a binding contract with the Applicant.

During the same time period the Applicant and AgResearch had exchanged draft contracts between themselves dealing with their relationship. By December 1995 AgResearch was pressing the Applicant to enter a contract for the supply of a minimum of one tonne of DEC to meet the HFE contract. By letter dated 8 December they advised inter alia:

> "The contract is valid until 5 p.m. on Friday 15 December 1995. If we do not receive a signed contract by this time we have no alternative but to contract the supply of product to Health Food Enterprise direct. This is an appropriate course of action given that the inquiry from Health Food Enterprise originally came separately to AgResearch and Glenalbany but we passed the inquiry on to Glenalbany in good faith. However no order has materialised from Glenalbany and we cannot run a business without any cash flow. The viability of the plant is at stake. To this end we are also pursuing options to supply other clients with various extracts as discussed with you in our meeting in your office on 29 November."

Mr Bellaney says the Applicant did not want to execute a contract with AgResearch until HFE had executed a contract with it. The Applicant's evidence is that it put a purchase contract put to HFE during December 1995. That is confirmed by the correspondence from HFE. That contract was never

executed and returned and subsequently in July 1996 HFE made it clear they were dealing direct with AgResearch.

By a letter of 24 July 1996 HFE advised the Applicant:

> "We had commissioned the Invermay Centre to develop a concentrate made from deer bone and venison. We will produce and use this concentrate for making our Essence of Deer product in the future.
>
> We will not be able to establish a business joint venture with you at this point in time, I do believe that opportunities may arise in the future for us to work together again."

In a letter of 30 July 1996 HFE stated inter alia:

> "We choose Invermay as our supplier because of lower price and high quality.
>
> We are about to finalize the contract with Invermay and will start purchase very soon."

Applicant's Case

Against that background the Applicant says that AgResearch was in breach of its obligations arising out of the relationship between the Applicant and AgResearch, particularly in its dealings with HFE, and that by dealing direct with HFE AgResearch cost the Applicant the deal it had with HFE.

AgResearch's Response

AgResearch's answer to that is two fold. Mr Toebes submitted firstly that DEC was a different product to the product supplied by AgResearch to HFE; and second that even if it was the same product (which was denied) the Applicant could not complain as it had not concluded a contract with HFE through its own fault. He submitted that AgResearch was therefore free to deal with HFE when no contract had been concluded between the Applicant and HFE in December 1995.

DEC

The evidence regarding the question of whether the product supplied by AgResearch to HFE was a different product to DEC is conflicting. In short, AgResearch's position is that the DEC developed by them for the Applicant is solely limited to bone extract, whereas the product supplied by AgResearch to HFE is comprised of both bone and meat. On the other hand, the Applicant says that its DEC does involve both bone and meat extract. The following references from the documents before the Court highlight the confusion:

- A flowchart supplied by the Applicant to AgResearch in 1994 identifies the raw material input of DEC as bones and meat (one part) and water (one part). Reference is also made in the flowchart to the bones and cooked meat being separated from the liquid.
- The draft production agreement prepared by AgResearch but which was never executed defines DEC as product extracted from deer bones. It defines "bones" as "means MAF certified deer bones recovered from the processing of deer in a licensed deer slaughtering premise". The agreement refers in a number of places to bones with no reference being made to meat.
- The final report of November 1995 prepared by AgResearch entitled "Analysis of Velvet Antler Extracts and Development of Extraction Technology for Glenalbany Holdings Ltd" refers under the heading of "preparation of DEC" to:

  > "... Following sufficient cooling to allow safe opening of the lid, the bones and meat residue were removed by use of tongs ...."

- In his second affidavit Mr Bellaney refers to DEC being a composition of meat and bone. He also says:

  > "AgResearch is aware of the need to use meaty bones, that is bone plus meat."

- The draft production agreement refers to deer bones being removed from the neck, vertebrae, pelvis, shoulder or ribs of a deer carcass - Mr Bellaney's evidence is that those bones are bones that have a high meaty residue.

It is impossible to resolve the conflict between the parties on this issue on the information presently before the Court. The evidence is conflicting. At the least there is a bona fide agreement that DEC involves the use of "meaty bones". How that differs from an extract made up of bones and meat is not clear. However, in my view it is significant that HFE failed to execute a formal contract with the Applicant, and in July 1996 entered a contract with AgResearch, citing as one reason the high quality and lower price. The inference from that correspondence is clearly that the product offered by AgResearch and the Applicant was the same at least in HFE's eyes, and one of the reasons for going with AgResearch as opposed to the Applicant was the pricing structure. There is no suggestion in the letter from HFE that AgResearch offered a different product. If they were different products then there would have been no reason for HFE not to pursue its contract with the Applicant as well.

Finally on this point, the letter of 8 December 1995 from AgResearch to the Applicant clearly threatens to supply HFE direct if the Applicant did not complete a contract. The product to be supplied direct must have been DEC or its equivalent.

AgResearch's Dealing with HFE

The second argument for AgResearch is that the failure of HFE to pursue the contract with the Applicant was the Applicant's fault and had nothing to do with AgResearch, and that AgResearch was free to deal directly with HFE. Certainly the letter of 8 December from AgResearch to the Applicant threatens that AgResearch will deal directly with HFE if the Applicant does not conclude a contract with it (AgResearch) by the end of December, and to that extent the Applicant was on notice. The question is whether AgResearch was entitled to take that stance and entitled to deal subsequently with HFE.

Mr Brandts-Giesen did not expressly formulate the Applicant's claims. It may be difficult for the Applicant to assert a breach of contract given

that no contract had been entered. However, in the absence of a contract, it may be that the basis of the Applicant's counterclaim could be found in the unauthorised use of confidential information. Even in the absence of a fiduciary relationship or a relationship in the nature of a joint venture, the unauthorised use of confidential information can lead to a remedy at law: *Pacifica Shipping Co Ltd v Andersen* [1986] 2 NZLR 328. There is arguably a separate equitable duty of confidence. As noted by Davidson CJ in *Pacifica Shipping Co Ltd* at p342, three requirements must be established for an action for breach of confidence:

> "1. That the information itself must be of a confidential nature. The information which will be protected must have 'the necessary quality of confidence' about it in the sense that it is not something which is public property or public knowledge: *Saltman Engineering Co Ltd v Campbell Engineering Co Ltd* [1963] 3 All ER 418.
>
> 2. The information must have been communicated in circumstances giving rise to an obligation of confidence.
>
> 3. The defendant has made or is about to make an unauthorised use of that information to the plaintiff's detriment: see *Coco v A N Clarke Engineers Ltd* (1969) RPC 41; see also *A B Consolidated Ltd v Europe Strength Food Co Pty Ltd* [1978] 2 NZLR 515, 520."

In the present case the information as to the composition and production of DEC is clearly of a confidential nature. That is accepted in the memorandum from AgResearch to the Applicant. The information has also been communicated in circumstances giving rise to an obligation of confidence. Again, in the present case AgResearch was aware that the information relating to DEC was passed to it in circumstances of confidence. That again was expressly set out in the correspondence from the Applicant to AgResearch in August 1994.

On that basis it is my view that the Applicant may have a bona fide arguable claim that AgResearch has made an unauthorised use of the information to the Plaintiff's detriment in dealing with HFE regarding the matter. If the information regarding DEC is confidential information then AgResearch

cannot absolve itself of the obligation to keep that information confidential and not use it to the detriment of the Applicant by competing commercially with the Applicant simply by giving notice to the Applicant of its intention to do so.

Quantum of the Counterclaim

The last objection taken by AgResearch to the counterclaim is that it is for unliquidated damages and there has been no attempt to accurately quantify of the claim. However, the correspondence before the Court establishes that the gross value of the potential contract with HFE was in excess of $1 million ($242 kg x 4 500). The evidence by Dr Suttie for AgResearch itself is that the absolute maximum gross profit before expenses other than raw material purchase costs would have been $330,000. Whilst the Applicant has not accurately quantified its counterclaim, this is not a case where there is no evidence before the Court of the quantum at all. On the basis of AgResearch's own figure, it is my view there must be a good argument that the counterclaim, if otherwise sound, is such as to exceed or at least equal the amount now claimed by AgResearch in the two statutory demands.

The Statutory Provision

Finally, in conclusion on the issue of the counterclaim, I note that the wording of s290(4)(b) is:

> "The Court may grant an application to set aside a statutory demand if it is satisfied that -
>
> ....
>
> (b) The company appears to have a counterclaim, set-off, or cross-demand and the amount specified in the demand less the amount of the counterclaim, set-off, or cross-demand is less than the prescribed amount;" (Underlining added)

Meaning must be given to the addition of the words "appears to have". If Parliament had intended a more rigorous test to be adopted, the subsection could simply have read "the Court may grant an application to set aside a statutory

demand if it is satisfied that the company has a counterclaim" (underlining added). A similar conclusion was reached by Master Gambrill in *Pacific Forum Line Ltd v New Bay Holdings Ltd* (M 141/96, 29/03/96, HC Auckland).

For the above reasons I am satisfied that on the information before the Court at this stage the Applicant has satisfied the Court that it appears to have a bona fide counterclaim and further that the amount of the counterclaim would equal or exceed the amount of the demands. On that basis jurisdiction is established to set aside the statutory demands.

Discretion

There is a residual discretion whether the demand should be set aside. Having come to the view there is a bona fide counterclaim satisfying s290(4) it would only be in rare cases that the discretion would be exercised against the Applicant. Mr Toebes submitted the Applicant was clearly insolvent. He referred to a company search which disclosed secured charges and also passages in correspondence from the Applicant company referring to a long list of creditors and possible receivership. I agree with Mr Brandts-Giesen that secured charges do not indicate insolvency. I note the comments referred to by Mr Toebes were made in 1996 before the Applicant had discovered AgResearch had contracted with HFE and at a time the Applicant proposed to pay off its debt to AgResearch. There is insufficient information before the Court to enable the Court to confidently conclude the company is so insolvent at this time that it would be proper to exercise any residual discretion against the Applicant.

Orders

There will therefore be an order setting aside both statutory notices dated 15 November 1996 and issued against the Applicant company.

The costs of this application are reserved. Liability for the costs is reserved.

I do not impose any terms on the setting aside of the demands. AgResearch will no doubt wish to pursue its claims against the Applicant. It will be in its interest to do so promptly and no directions are required.

MASTER VENNING

Solicitors:
J J Brandts-Giesen, Rangiora for Applicant
Buddle Findlay, Wellington for Respondent