

Introduction

[1] On 19 December 2008, the plaintiffs filed an application for a confidentiality order pursuant to s 69 of the Evidence Act 2006. The order is sought in relation to a settlement agreement between the plaintiffs and a group of Chinese companies called “Ren He.”

[2] The application is opposed by the defendant.

Background Facts

[3] The plaintiffs are suing the defendant for infringement of copyright in New Zealand and China in relation to a form of portable building known as the Habode building, and for conversion, breach of confidence and procuring a breach of contract in relation to the transfer of a Habode building prototype to an Australian entity. The defendant denies the claims and has issued separate proceedings against the plaintiffs for breach of fiduciary duties of loyalty.

[4] The first plaintiff, Mr Gibson, is the designer of the Habode concept, a modular prefabricated building that is in the form of a freight container which can be erected on site. Mr Gibson licensed the copyright in Habode to the second plaintiff, a company established for the purpose of commercialising and marketing the building worldwide. Mr Gibson is a director of the second plaintiff.

[5] In 2003, Mr Gibson and the defendant, Mr Curtis, took equal shareholdings in a company called Habode (NZ) Limited to market Habode in New Zealand. On 10 June 2004, the second plaintiff entered into a Licensing Agreement with Habode (NZ) Limited, pursuant to which Habode (NZ) Limited obtained a licence to sell, promote and market the Habode building within the territory of New Zealand. The defendant is currently the sole director of Habode (NZ) Limited. The Licensing Agreement provided that the second plaintiff retain its proprietary interest in the intellectual property relating to the Habode building, and required Habode (NZ) Limited to hold all information it obtained through its relationship with the second plaintiff in the strictest confidence.

[6] In 2004, Habode (NZ) Limited entered into a manufacturing contract with a Chinese company, Renhe (Xiamen) International Trade Co Ltd (“Ren He”), for the

manufacture of the first Habode prototype. The expectation was that Ren He would make several Habode buildings and supply them to New Zealand for Habode to sell. Unfortunately the contractual arrangement failed due to a disagreement over costs and a dispute arose concerning the intellectual property involved in producing the prototype. Although the second plaintiff became aware of alleged infringements of its intellectual property rights and communicated its concerns to Ren He, it took no further steps to protect its interests at the time. Arrangements were made for another company to manufacture further prototypes, and in November 2005, Habode (NZ) Limited received the first prototype building at the port of Wellington.

[7] However, the relationship between Mr Gibson and the defendant broke down before further prototypes were shipped to New Zealand. In March 2006, the second plaintiff purportedly terminated the Licensing Agreement and Mr Gibson resigned as a director of Habode (NZ) Limited, which subsequently went into liquidation.

[8] The defendant then sold the first prototype to an Australian owned entity, which is now the subject of claims by the plaintiffs for conversion, breach of confidence and procuring breach of contract. The plaintiffs also claim that the defendant has made arrangements for certain buildings to be manufactured in China and delivered to Australia for the purpose of marketing and selling them in the Australian market. The buildings are alleged to be the same or materially similar to the Habode building. The defendant, however, denies these claims. He says that the prototype was validly sold, that the sale was not part of an attempt to market similar buildings in Australia and that he has not breached confidence by selling the prototype. He claims that he has no involvement in the manufacture of buildings in breach of copyright.

[9] The plaintiffs and Ren He since that time have been involved in litigation in Australia over a building distributed by Ren He in Australia. The plaintiffs claimed that the building infringed their patent, in response to which Ren He brought proceedings for unjustified threats of infringement of Habode's patent rights. That proceeding has now been settled, and it is the settlement agreement outlining that settlement which is the subject of the plaintiffs' confidentiality claim.

[10] Disputes have also arisen over discovery here. In the course of the proceedings, the plaintiffs applied for an order setting aside a claim to privilege in a single document, and the defendant applied both for further and better discovery and for the setting aside of claims for privilege in several documents. The opposing positions were described as follows by Abbott AJ (in his judgment issued on 4 July 2008):

“[17] In an affidavit in support of the application Mr Curtis refers to steps being taken by the plaintiffs to market the Habode concept overseas, and to protect their position by way of patent application. He refers to Habode IP seeking world-wide patents and seeks disclosure of all documents showing the Habode process filed in support of patent applications world-wide. He also identifies three Hong Kong companies in which Mr Gibson has an interest and seeks documents showing disclosure of the Habode process to them. He refers to marketing of Habode buildings by third parties in late 2006, and the distribution by Renhe or associated entities of “Habode type” product in Australia after the breakdown of the business relationship with Renhe. He seeks documents showing the extent of this activity.

[18] The plaintiffs say that they have discovered all relevant patent information (their patent attorney gave an affidavit that he had extracted all relevant information from his files), and that discovery of patent applications around the world would be unnecessary and would not relate to any issue in question in the proceeding. They say that they have discovered all documents showing the licensing of the Habode concept in New Zealand, and with entities elsewhere. In particular they have discovered the documents concerning their dealings with Renhe, and the subsequent Chinese manufacturer of the Habode prototype. They acknowledge Mr Gibson’s involvement in the three Hong Kong companies but say that two of them have no relevant documents and the third (International Housing Solutions Limited) is not within their control. They say that the documents concerning the Renhe litigation in Australia are not relevant as that litigation was only about whether Renhe was entitled to any interest in the Habode intellectual property by reason of its work in creating the initial Habode prototype.”

[11] The plaintiffs had already provided defendant’s counsel with a copy of the pleadings in the Ren He litigation. Abbott AJ thought that it was clear that the litigation was limited to Ren He’s allegations of unjustified threats of patent infringement by the plaintiffs, and the plaintiffs’ cross-claim for breach of their patent. He concluded that although the issues in that litigation were different from those in the present proceeding, it seemed likely that there would be documents dealing with the activities of Ren He, or Ren He’s associated companies in Australia. He went on to say at paragraph [26] that:

“[26]...[c]ounsel for the plaintiffs realistically accepted that they could not oppose an order that they disclose such documents. I understood counsel for Mr Curtis to accept that any such disclosure should be limited to the period up to the date that the prototype unit arrived in Australia. Counsel may apply by

memorandum for a variation to my order in this respect if I have misunderstood her concession.”

Abbott AJ then made an order that “[t]he plaintiffs are to discover documents in the Ren He litigation which identify Ren He’s or Ren He’s associated companies’ activities in Australia up to the time that the prototype unit arrived in Australia.” This order was varied on application by the defendant, who sought to have the phrase “up to the time that the prototype unit arrived in Australia” removed. The plaintiffs opposed any change to the order on the basis that there was no logical basis for extending it. They argued that the critical point for their claim for breach of confidence was when the Habode unit from New Zealand reached Australia, and that after that point the Ren He information was no longer relevant. Abbott AJ agreed with the plaintiffs that the critical issue was when information about the Habode unit entered the public domain in Australia, but held that there was no information before the Court as to when the unit reached Australia and as to the extent of its publication at that time. Abbott AJ then concluded that:

“[21]...[t]he possibility that it did not get in to the public domain for some time after cannot be ruled out. I also accept that continuing dissemination of information about the Habode design as a result of Renhe’s activities in Australia may also be relevant to any assessment of damages for any breach by the defendant.”

On 1 August 2008, the order was thus varied by removal of the phrase “up to the time that the prototype unit arrived in Australia”.

[12] On 11 December 2008, the defendant issued proceedings against the first and the second plaintiff, alleging breach of fiduciary duties of loyalty on several grounds. The thrust of the defendant’s claim as I understand it is that the plaintiffs wrongfully cancelled the contractual arrangements and on-sold the knowledge and experience gained from the joint venture to third parties.

[13] The plaintiffs now seek a confidentiality order pursuant to s 69 of the Evidence Act 2006 that the settlement agreement with Ren He not be disclosed to the defendant.

Counsel’s Arguments and my Decision

[14] Counsel for the plaintiffs apply for this confidentiality order on the following grounds:

- that the terms of the settlement agreement are required to remain confidential between the parties;
- that the document attracts privilege provided for in s 57 of the Evidence Act 2006 and is therefore properly withheld from production;
- that the document’s confidentiality justifies the Court ordering it being withheld from production in accordance with s 69 of the Evidence Act 2006;
- that the interests of justice require the document to be withheld.

Counsel further submits that Mr Gibson is obliged, by the terms of the settlement agreement itself, not to disclose it without an order of the Court, that the document is not relevant to this dispute and its production is not necessary. He also claims that the defendant is a potential competitor to Ren He, and that disclosure of the settlement agreement to a potential competitor “is more likely to invoke a response from Ren He.”

[15] The plaintiffs’ argument is focused on s 69 of the Evidence Act 2006, which provides that the Court may make a direction that a communication or information which is confidential not be disclosed in a proceeding. The relevant considerations are set out as follows:

“Section 69 Overriding discretion as to confidential information

- (2) A Judge may give a direction under this section if the Judge considers that the public interest in the disclosure in the proceeding of the communication or information is outweighed by the public interest in –
 - (a) preventing harm to a person by whom, about whom, or on whose behalf the confidential information was obtained, recorded, or prepared or to whom it was communicated; or
 - (b) preventing harm to –
 - (i) the particular relationship in the course of which the confidential communication or confidential information was made, obtained, recorded, or prepared; or
 - (ii) relationships that are of the same kind as, or of a kind similar to, the relationship referred to in subparagraph (i); or
 - (c) maintaining activities that contribute to or rely on the free flow of information.
- (3) When considering whether to give a direction under this section, the Judge must have regard to –
 - (a) the likely extent of harm that may result from the disclosure of the communication or information; and
 - (b) the nature of the communication or information and its likely importance in the proceeding; and

- (c) the nature of the proceeding; and
 - (d) the availability or possible availability of other means of obtaining evidence of the communication or information; and
 - (e) the availability of means of preventing or restricting public disclosure of the evidence if the evidence is given; and
 - (f) the sensitivity of the evidence, having regard to –
 - (i) the time that has elapsed since the communication was made or the information was compiled or prepared; and
 - (ii) the extent to which the information has already been disclosed to other persons; and
 - (g) society's interest in protecting the privacy of victims of offences and, in particular, victims of sexual offences.
- (4) The Judge may, in addition to the matters stated in subsection (3), have regard to any other matters that the Judge considers relevant.”

[16] The plaintiffs rely on *M v L* [1999] 1 NZLR 747 and s 69, and submit that the Court is required to weigh the public interest in keeping particular material confidential against the interests of justice in having all relevant material before the Court. The plaintiffs argue that it is in the public interest that the parties to a settlement negotiation can assume a settlement agreement will be kept confidential, and that it is of central importance to the resolution of commercial litigation that there is a free flow of information between the parties to settlement negotiations.

[17] They further submit that while the settlement agreement does not contain any information particularly relevant to this proceeding, it does detail particular specifications in respect of Habode buildings which the plaintiffs would like to keep from the defendant. More specifically, it contains information that would assist the defendant in conducting commercial activities in competition to the Habode venture in Australia. The agreement sets out the process whereby a competitor could construct and sell a portable unit materially similar to the Habode product without breaching its intellectual property. Clause 4 of the agreement appears to provide technical specifications of the Habode unit that the Ren He models are not entitled to replicate.

[18] The plaintiffs refer to *Mobil Oil New Zealand Limited v Ellison* (1999) 13 PRNZ 177, a case in which the Court ordered full disclosure of five documents containing commercially sensitive information. Counsel seeks to distinguish this case from the present proceedings on the basis that the defendants in *Mobil Oil* were not competitors of the plaintiff and there was therefore no ground for concern about the information falling into their hands. The present case is also claimed to be

different because the settlement agreement contains a clear confidentiality clause, the information in the settlement agreement is not relevant to the dispute, and because the agreement contains confidential trade information which would be provided to a person “who has expressed a desire to sell Habode-style buildings in the Australian market and ... has taken active steps to do so.”

[19] The plaintiffs also made reference to s 57 of the Evidence Act, which codifies the common law in relation to “without prejudice” communications. The section provides privilege to parties to, or a mediator in, a civil proceeding in respect of any communication made in connection with an attempt to settle or mediate the dispute. However, s 57 does not apply to the terms of an agreement settling the dispute (see s. 57(3)(a)) and is therefore of limited assistance to the plaintiffs.

[20] The defendant submits that the settlement agreement is relevant to his claim brought in the newer proceedings, in which he seeks to unravel a joint venture. He claims that he has no interest in pursuing the Habode concept for himself, but that this is irrelevant in any event because of the restrictions placed on documents provided through discovery. The defendant relies on HCR 8.36(4) to show that such documents do not have an existence outside of the proceeding for which they are produced. The defendant argues that he is under an obligation to make no improper use of disclosed documents, and that the plaintiffs’ concerns thus are not valid.

[21] In addition to s 69 of the Evidence Act, it is necessary to set out briefly the relevant High Court Rule dealing with privilege and confidentiality and orders for disclosure of documents:

“HCR 8.31 Challenge to privilege or confidentiality claim

- 1) If a party challenges a claim to privilege or confidentiality made in an affidavit of documents, the party may apply to the court for an order setting aside or modifying the claim.
- 2) In considering the application, a Judge may require the document under review to be produced to the Judge and inspect it for the purpose of deciding the validity of the claim.
- 3) The Judge may—
 - a) set aside the claim to privilege or confidentiality; or
 - b) modify the claim to privilege or confidentiality; or
 - c) dismiss the application; or
 - d) make any other order with respect to the document under review that the Judge thinks just.”

[22] In *Port Nelson Ltd v Commerce Commission* (1994) 7 PRNZ 344 (CA), the Court of Appeal engaged in a balancing exercise to determine whether an order should be made under HCR 307 (now HCR 8.31). The Court said (at 348):

“It is a matter of balancing on the one hand the interests of justice in ensuring that the [plaintiff] is able to prepare and present its case, and on the other the interests of [the defendant] in safeguarding its confidential information in a competitive market.”

[23] A copy of the settlement agreement has been provided to me. It is evident that the agreement contains sensitive and secret material, particularly in clause 4, which may be harmful to both the plaintiffs and Ren He if it was made available to a trade competitor. As noted by the plaintiffs, it is therefore of material importance whether the plaintiffs and the defendant, or the plaintiffs and Ren He, can be considered competitors: see *Mobil Oil*. This issue is of course at the heart of the plaintiffs’ allegations in the main proceeding, and vehemently contested by the defendant. There is also no doubt that the settlement agreement is in itself confidential, not least because of the confidentiality clause that it contains. I agree with the plaintiffs’ submission that there is significant public interest in maintaining the confidentiality of such settlement agreements and thereby to ensure the free flow of information between parties relevant to the settling of disputes. However, the settlement agreement does specifically provide that the plaintiffs will not be in breach of the confidentiality clause if disclosure is ordered by the Court.

[24] It should be noted also that mere commercial sensitivity does not often warrant an order of non-disclosure. Instead, it is common practice to control the mode of discovery by limiting disclosure to a selected number of people. For example, the plaintiff in *Mobil Oil* sought to prevent disclosure of the documents to the defendants personally, but not to the defendants’ counsel. The Court of Appeal in *Port Nelson Ltd v Commerce Commission* held (at 348):

“Relevant documents should generally be made available for inspection. The fact that they are regarded as being confidential, and would not be made available were it not for the requirements of the litigation, is immaterial ... It must be either apparent from the document in question or shown by other evidence that disclosure would be likely to prejudice the party in some significant way. Even the possibility of prejudice may be sufficient, but that will depend on the seriousness of the possible prejudice and on the significance of the document to the issues in the proceeding, and the extent to which limited disclosure may enable the concerns of both parties to be accommodated.”

[25] Similarly, s 69 requires me to take into account the “likely importance” of the information in the proceeding. On this, the plaintiffs submit that the settlement agreement does not contain any information relevant to the proceeding. In *M v L*, the Court of Appeal described the Court’s discretion to order disclosure of confidential documents as follows (at 762):

“In parallel with the position at common law, there can be no doubt that for the purposes of inspection following discovery, R 307 invests the Court with a discretion. Discoverable documents which are not privileged in the strict sense, must ordinarily be produced for inspection by opposite parties, but if to do so would serve little forensic purpose and would be in breach of some social or ethical value of sufficient importance to predominate, the Court is entitled to refuse an order for production.”

[26] I cannot accept the plaintiffs’ submission in its entirety. The settlement agreement contains limited information concerning Ren He’s activities in Australia, which may be relevant to the plaintiffs’ claim of breach of confidence. However, the agreement does not seem to contain any information that would be relevant to the defendant’s claim of breach of fiduciary duty. In any event, it is not likely that clause 4, which essentially contains the commercially sensitive information, would have any bearing on the claims of either party in either proceeding. I cannot, however, rule out that it may have some indirect relevance to the proceedings. The ultimate relevance of the settlement agreement is therefore uncertain, but in my view neither the claimed commercial sensitivity nor the confidential nature of the settlement agreement is sufficient to enable the plaintiffs to refuse disclosure entirely.

[27] Restricted disclosure of the settlement agreement seems to me to be the most appropriate solution in the circumstances here. Rule 8.20(2)(e) *High Court Rules* requires persons claiming confidentiality for documents to list the restrictions proposed to protect it. Here it appears that the plaintiffs have failed to do this. As I see the position, inspection of clause 4 (and the settlement sum clause 3) should be limited to the defendant’s solicitor and counsel and that any person inspecting the document should be required to give an undertaking that they will not disclose the information contained in clause 4 and clause 3 to any other person. The remainder of the document should be made available to the defendant personally: see *Marr v*

Arabco Traders Ltd (1986) 2 PRNZ 72. Leave is reserved to apply for a variation of these conditions should the restrictions prove inappropriate.

Result

[28] The plaintiffs' present application for a confidentiality order in relation to the settlement agreement with Ren He, is therefore largely unsuccessful. The following conditions attached to the order of inspection are designed however to meet the plaintiffs' concerns regarding the commercial sensitivity of the agreement.

[29] Orders are therefore made as follows:

- a) Within 14 days of the date of this judgment, the plaintiffs are to produce for inspection to the defendant the settlement agreement being document P359 subject to the matters noted in paragraph [29](b) below.
- b) Inspection of this document is to be made on the following conditions:
 - a) Clauses 3 and 4 of the settlement agreement are to be made illegible or covered up before inspection of the document;
 - b) Clauses 3 and 4 are only to be disclosed to the defendant's counsel and solicitor;

A written undertaking is first to be given by the defendant's counsel and solicitor that they will not disclose any information contained within clauses 3 and 4 of the settlement agreement to any other person.

Costs

[30] Costs are reserved. If they are in issue and counsel are unable to agree then memoranda may be filed sequentially and I will decide the issue on the basis of the material before the Court.

'Associate Judge D.I. Gendall'