



## **Introduction**

[1] On 28 April 2009 I gave judgment in this proceeding with respect to an application by the plaintiffs for a confidentiality order pursuant to s 69 of the Evidence Act 2006. The order was sought in relation to a settlement agreement (“the settlement agreement”) between the plaintiffs and a group of Chinese companies called “Ren He”. The plaintiff’s application before me was partly successful and partly unsuccessful. In that decision, I ordered that the plaintiffs were to produce for inspection to the defendant the settlement agreement, sought by the defendants, but in doing so I imposed certain restricted disclosure conditions. The defendant now seeks an award of costs against the plaintiffs on the application. The plaintiff opposes any application for costs and submits that costs should lie where they fall.

[2] 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 first plaintiff is the designer of the Habode concept. The first plaintiff licensed the copyright in Habode to the second plaintiff. He is a director of the second plaintiff company.

[3] The first plaintiff and the defendant took equal shareholdings in Habode (NZ) Limited, a company incorporated to market Habode in New Zealand. In 2004, Habode (NZ) Limited entered into a manufacturing contract with Renhe (Xiamen) International Trade Co Ltd (“Ren He”) for the manufacture of the first Habode prototype. This contract failed due to a disagreement over costs and a dispute concerning intellectual property. The second plaintiff became aware of alleged infringements on its intellectual property by Ren He.

[4] The relationship between the first plaintiff and the defendant broke down, with the second plaintiff purporting to cancel the Licensing Agreement it had with Habode (NZ) Limited, and the first plaintiff resigning as director of Habode (NZ) Limited. Habode (NZ) Limited is now in liquidation. After this break down, the defendant apparently sold the first prototype building received by Habode (NZ)

Limited to an Australian entity. It is this action which is now the subject of the plaintiffs' claims in conversion, breach of confidence, and procuring breach of contract.

[5] Since then, the plaintiffs and Ren He have been involved in litigation over a building distributed by Ren He in Australia, which the plaintiffs claimed infringed their patent. In response, Ren He brought proceedings for unjustified threats of infringement of patent rights. This proceeding has now been settled. It is this settlement document which is the settlement agreement between the plaintiffs and Ren He for which the confidentiality order is sought here.

### **Confidentiality Order**

[6] The settlement agreement itself clearly required that it was to remain confidential between the parties, and that it was not to be disclosed to any outside party without an appropriate order from a Court. Counsel for the plaintiffs also endeavoured to argue that the document was not relevant to the dispute between the parties in these proceedings and that its production therefore was not necessary. However, the parties accept that the document did contain particular specifications with respect to the Habode building, specifications which are commercially sensitive and which would assist the defendant in conducting commercial activities in competition with the Habode venture in Australia. The settlement agreement apparently sets out the process by which a competitor could construct and sell a unit materially similar to the Habode without breaching the plaintiffs' intellectual property.

[7] In my 28 April 2009 decision, I found that while the relevance of the settlement agreement to the defendant's case was uncertain, neither the claimed commercial sensitivity nor the confidential nature of the document was sufficient to enable the plaintiffs to refuse disclosure entirely. In that decision, inspection of clauses 3 and 4, of the settlement agreement, which contained the most sensitive information, was accordingly limited to the defendant's solicitor and counsel, and any person inspecting the document was required to give an undertaking that they would not disclose the information contained in those clauses to any other person.

The remainder of the document was ordered to be made available generally. As such, the plaintiffs' application for a confidentiality order was partly successful and partly unsuccessful. Costs were reserved.

### **Costs**

[8] On 14 May 2009 counsel for the defendant filed his memorandum as to costs. The defendant points to correspondence between the defendant and the plaintiffs, in which the defendant requested discovery of the settlement agreement. On 14 November 2008 the defendant was informed by the plaintiffs' solicitor that the settlement agreement could not be provided to the defendant because of the strict confidentiality clause. Defendant's counsel replied on 21 November 2008 stating that he would be happy to look at the document on the basis that it was kept confidential between lawyers. This proposal was repeated on 8 December 2008. The plaintiff then filed this application for confidentiality orders on 18 December 2008.

[9] Counsel for the defendant points out that the end result – disclosure of the document with inspection of certain clauses limited to counsel on a confidential basis – is what the defendant offered at the start of discussions on this matter. As such, the defendant's position is that the process, instigated by the plaintiff, was unnecessary. The defendant does accept however that the settlement agreement contains a confidentiality clause, which includes a provision stating that the agreement may be revealed by Court order. But, he goes on to argue that if a Court order was necessary, this could have been obtained by consent, rather than by putting the defendant to the cost of argument. As such, the defendant seeks costs against the plaintiffs here and submits these should be awarded on a category 2B basis.

[10] The plaintiffs, in Counsel's memorandum filed 28 May 2009, oppose any application for costs and submit that costs should lie where they fall. Although the plaintiffs were only partly successful in their application, they submit that they were obliged by the settlement agreement not to disclose its terms without a Court order. They further submit that the consequences of breaching the confidentiality clause were significant (namely the possibility of Ren He cancelling the agreement); that their present application was indeed partially successful in that certain crucial parts

of the settlement agreement were to be withheld from the defendant; and that the plaintiff has acted responsibly in avoiding a hearing and having this matter resolved as efficiently as possible. On this latter point, the plaintiffs point out that they made the application for a confidentiality order themselves, rather than obliging the defendant to seek an order for the production of the document. They note that they incurred the filing fee cost of the present application themselves and that they proposed that the issue be resolved on the papers without the need for an appearance by counsel.

[11] Costs are at the discretion of the Court – r 14.1 High Court Rules. The primary principle is that a party who fails on an interlocutory application should usually pay the costs involved (costs follow the event) – r 14.2(a) High Court Rules and r 14.8.

[12] The plaintiffs submit that they have not really “failed” here as certain parts of the settlement agreement were ordered to be withheld from the defendant personally. Against this, I note that it seems the defendants were always willing to proceed on the basis of confidentiality between lawyers. However, given the importance of the confidentiality clause to both parties to the settlement agreement, and the serious consequences for the plaintiffs were the confidentiality clause breached, I am satisfied that the plaintiffs did act sensibly here in seeking to have the Court determine the matter. Further, I accept here that the plaintiffs took sensible steps to keep the costs of the application to a minimum. The parties here have effectively had equal success with the plaintiff’s application partly succeeding and partly failing. In my view costs should therefore lie where they fall – *Packing In Ltd v Chilcott* (2003) 16PRNZ 869 (CA). With these factors in mind, the defendants’ application for costs must fail.

## **Result**

[13] The defendants' application for costs is dismissed. I find here that costs should lie where they fall. There is accordingly no order for costs.

**'Associate Judge D.I. Gendall'**