

**IN THE HIGH COURT OF NEW ZEALAND
AUCKLAND REGISTRY**

CIV 2001-404-3668

BETWEEN	REX CAMERON LUCAS First Plaintiff
AND	G W LUCAS & SONS PTY LTD Second Plaintiff
AND	PETERSON PORTABLE SAWING SYSTEMS LIMITED (IN LIQUIDATION) First Defendant
AND	CARL JAMES PETERSON Second Defendant

Hearing: 21 October 2009

Appearances: E Gray and T J Walker for the Plaintiffs
Second defendant in person

Judgment: 2 December 2009 at 11.30 am

RESERVED JUDGMENT OF PRIESTLEY J

*This judgment was delivered by me on 2 December 2009 at 11.30 am
pursuant to Rule 11.5 of the High Court Rules.*

Registrar/Deputy Registrar

Date:.....

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Disputes to resolve

[1] There are two matters which the plaintiff and the second defendant cannot resolve. These are:

- i) The second defendant's entitlement to costs.
- ii) The plaintiffs' application to strike out the second defendant's remaining viable cause of action.

Background

[2] For over 11 years the parties have been locked into a dispute involving a portable saw mill and their respective rights under a patent.

[3] It is unnecessary to detail the factual background. The Lucas interests, being Australian based, were involved in the design and manufacture of outdoor machinery. Their principal product was a "grabber", a mechanical device for picking up logs. The defendants were New Zealand based and were involved in the design, manufacture, and sale of portable saw mills which were sold widely in Australasia and the Pacific Islands.

[4] The specifics of the factual background are clearly set out in the judgment of Fisher J in *Lucas v Peterson Portable Sawing Systems Ltd* [2003] 3 NZLR 361 between [2] and [19].

[5] The plaintiffs, having already obtained an interim injunction issued by Rodney Hansen J in February 2001, claimed damages and permanent injunctions for alleged infringement by the defendants of their patent. The defendants denied an infringement and pleaded the patent was invalid. Invalidity was based on lack of novelty and obviousness so far as the plaintiffs' patent was concerned.

[6] The plaintiffs were successful in the High Court and made out their claim that the defendants' design infringed claim 7 of the plaintiffs' specification. The matter

went to the Court of Appeal in March 2005. That Court dismissed the defendants' appeal. (*Peterson Portable Sawing Systems Ltd v Lucas* CA64/03 CA97/03, 4 March 2005).

[7] The defendants sought leave to appeal to the Supreme Court. Leave was granted. In *Lucas v Peterson Portable Sawing Systems Ltd* [2006] 3 NZLR 721 the Supreme Court (in a judgment delivered by Gault J) unanimously allowed the appeal. The Supreme Court issued a declaration of invalidity on the plaintiffs' claim 7 and remitted the proceeding to the High Court for further determination in the light of the Supreme Court judgment. The defendants were awarded costs.

The next phase

[8] The issue of resolving the defendants' costs in the High Court was placed before Keane J in February 2007. (Fisher J had awarded costs to the plaintiffs.) Both defendants sought costs. The first defendant was by that stage in liquidation. It is abundantly clear that the second defendant was responsible for the incorporation of the first defendant; that he was the progenitor of the defendants' intellectual property which the plaintiffs had attacked; and that it was his livelihood which had been imperilled. For some reason the second defendant had withdrawn instructions from his counsel during the High Court hearing and had represented himself. Keane J fixed the first defendant's costs (*Lucas v Peterson Portable Sawing Systems Ltd (In Liquidation) & Peterson* HC AK CIV 2001-404-3668, 27 February 2007).

[9] The comments which Keane J made about the second defendant's claim for costs are instructive:

[17] Mr Peterson looks for a complete reversal of the award in 2003. The Supreme Court decision was enough, he contends, to invalidate the entire specification and dispose of any question of infringement. He claims the right to share equally in any costs awarded because, as a co-defendant, he was forced to place all his resources behind the PPSSL defence. He went without salary or wages for two years. He used up his personal line of credit and was left in significant debt.

[18] Mr Peterson's claim for costs faces this formidable difficulty, that in New Zealand a lay litigant is not entitled, except perhaps rarely, to recover

costs, though disbursements may be allowed. Affirming that rule, the Court of Appeal in *Re Collier (A bankrupt)* [1996] 2 NZLR 438 remarked at 441:

There are obvious difficulties in a policy that would allow a lay litigant to be paid for his time and trouble not least the basis on which such expenses should be calculated but there may arise cases where such course is justifiable remembering always that the present rule is a rule of practice and not a rule of law.

The only category of case in which the Court thought an award might conceivably be justified cannot, however, assist Mr Peterson. It is where a lay litigant without seeking personal advantage, seeks to advance the welfare of the public. Mr Peterson's interest in this case, and I say this in no sense pejoratively, could not be more directly personal.

[19] A second reason why Mr Peterson cannot have costs in this Court is that until relatively late in the hearing his case and that of PPSSL, in which he had until then held I understand a controlling interest, were advanced as one. It was only late in the hearing, I understand, that he withdrew his instructions from counsel, whom they had until then shared, who continued to conduct the case for PPSSL. His claim, if he did have one, would be negligible.

[20] In this I do not overlook the personal cost to Mr Peterson of sustaining PPSSL, and himself, in each phase of the case. That cost has been obviously considerable and in every sense. It cannot, however, qualify Mr Peterson for costs on ordinary principles. What he seeks is in the nature of damages, and whether he has any basis for such a claim against the plaintiffs lies beyond the scope of this present issue as to costs.

[10] The next judge to consider the proceeding was Heath J. The plaintiffs, in the wake of the Supreme Court judgment, made an application to amend their patent. Heath J, by a judgment issued on 27 April 2009, adjourned that application until determination of the infringement and validity issues of the patent.

[11] Shortly thereafter the plaintiffs gave up. They discontinued their proceeding on 9 July 2009.

[12] On normal principles a defendant is entitled to costs when a plaintiff discontinues. The plaintiffs' stance was that the second defendant was entitled to reasonable disbursements incurred but, because he was self-represented throughout, had no claim for costs. The plaintiffs' discontinuance, however, did not dispose of the second defendant's counterclaim. The counterclaim (effectively limited to one paragraph and its prayer) seeks damages for unjustified threats under s 74 of the Patents Act 1953.

Costs

[13] For the plaintiffs Mr Gray accepts that reasonable disbursements, itemised by the second defendant, and totalling \$1,819 plus a court filing fee of \$600, coming to a total of \$2,419, are properly payable by the plaintiffs.

[14] The second defendant submits that, in addition to that undisputed figure, he is entitled to substantial costs for representing the “public interest” in default of any effective action to protect the public interest by the Attorney-General.

[15] Section 76 provides:

76 Attorney-General may appear in patent proceedings

- (1) The Attorney-General, if in his opinion the public interest is or may be involved, may do all or any of the following things:
 - (a) Institute proceedings to test the validity of any patent:
 - (b) Join the plaintiff in an action brought under section 74 of this Act:
 - (c) Apply for the revocation of a patent:
 - (d) Appear and be heard in any proceedings before the Court or the Commissioner for the grant, extension, amendment, or revocation of a patent, or where the validity of a patent is in question, or for a licence under a patent, or for the endorsement of a patent with the words “licences of right”, or for a declaration of non-infringement, and take any steps which he considers desirable as if he were a party to the proceedings:
 - (e) Intervene in and take over the control and conduct of any proceedings in which he may appear and be heard as aforesaid on behalf and with the consent of a party thereto.
- (2) In any proceedings before the Court or the Commissioner (other than proceedings under section 16 of this Act) any party who intends to question the validity of a patent shall give notice of that intention to the Solicitor-General at least 21 days before the hearing, and shall supply the Solicitor-General with a copy of such papers filed in the proceedings by himself and by any other party as the Solicitor-General requires.

...

[16] Clearly the Attorney-General was notified, as ss (2) requires, of the defendants' intention to challenge the validity of the plaintiffs' patent. But the Attorney-General declined to take any intervening steps.

[17] Between 2003 and 2007 the second defendant made strenuous efforts to persuade the Attorney-General to become engaged in this proceeding. I have seen correspondence between the second defendant and two Attorneys-General, his local Member of Parliament, and the then Prime Minister.

[18] The Attorney-General's apparent stance is best set out in a letter of 15 July 2003 from the Hon Margaret Wilson, then Attorney-General, to the second defendant in reply to an email. Ms Wilson wrote:

Even though I have a statutory ability to intervene in patent proceedings, it is still the Court that decides those proceedings. The Court does not have to agree with the position that my counsel advances.

There is a benefit in counsel appearing on my behalf in patents cases *only* (emphasis added) if there is something important that the Crown can add. Most patent cases are essentially commercial disputes, with commercial consequences, and do not raise a matter of the public interest. In those cases the parties should be able to canvass the relevant issues. As I understand it, your concerns about the High Court hearing are matters that your lawyer can address, and there is not that extra dimension that requires the very unusual step of counsel intervening on my behalf.

[19] The Attorney-General's stance did not change during the ensuing years despite renewed requests from the second defendant.

[20] The second defendant, in his submissions, appeared to accept the Attorney-General's reasoning. He submitted that he was "likely the only person in New Zealand that fully appreciated the numerous grounds of invalidity held within the proposed Lucas amendment, and its onerous negative impact on the public interest. Thus the Attorney-General could not have effectively defended the public interest in this case even if he had been involved".

[21] The second defendant submitted that this proceeding was exceptional. Not only had its litigation history been protracted and his stance ultimately vindicated. Additionally he had selflessly pursued his attack on the validity of the plaintiffs'

patent. The Court had a discretion in exceptional cases, and the interests of justice required, some reimbursement for costs in a situation where, as a lay litigant, the second defendant had sought to advance the public welfare.

[22] In *re Collier (A Bankrupt)* [1996] 2 NZLR 438, the Court of Appeal reviewed authorities and confirmed the view of the Judge at first instance that:

There is an established rule in New Zealand that lay litigants are not entitled to recover costs, although they will be awarded reasonable disbursements at the discretion of the court. [at 440]

[23] Temm J, delivering the Court of Appeal's judgment, referred to the difficulties that would arise with any policy permitting a lay litigant to be paid for his time and trouble. The Court commented, *obiter* at 441 that:

... there may arise cases where such a course is justifiable remembering always that the present rule is a rule of practice not a rule of law. For example, it could happen that a litigant might involve himself in an action without hope of any personal gain or advantage, but purely out of the concern for the welfare of the general public.

The Court gave two examples being *Simpson v Attorney-General* [1955] NZLR 271 and *Fitzgerald v Muldoon* [1976] 2 NZLR 615. In the first of those cases a plaintiff challenged (unsuccessfully) the validity of the 1946 general election. In the second case the plaintiff challenged successfully the validity of a policy announcement by the then Prime Minister purporting to dispense with the provisions of unrepealed superannuation legislation.

[24] However, neither of those two cases really delineate exceptional circumstances where a lay litigant might be awarded costs. In *Simpson* costs were not awarded against the unsuccessful party. The judgment of Wild CJ in *Fitzgerald* is silent on the question of costs.

[25] The global figure, which the second defendant sought, was \$10,000. He accepts, and correctly so, that his costs claim must be limited to appearances and preparation related to the plaintiffs' amendment application. He submits, and I accept, that there was no link between the second defendant's opposition to the amendment application and his personal commercial advantage. He submitted that

the weight of evidence and submissions pointed to the obvious failure of the amendment application which could be treated now as “dead and buried”.

[26] *Re Collier* and the general principle enunciated therein (applied also by Keane J in respect of another phase of this litigation (supra [9])) is binding on this Court. (See also *Knight v The Veterinary Council of New Zealand* WN HC CIV-2007-485-1300, 39 July 2009, Clifford J.) The structure of the legislation, and in particular s 76, make it clear that the proper person to assess and defend, if necessary, the public interest is the Attorney-General.

[27] I do not accept the second defendant’s implicit argument that a specious or weak claim must be defeated to uphold the public interest. I have some doubts as to whether the *obiter* comments by the Court of Appeal carry much weight in a Patents Act context when s 76 provides a specific vehicle for public interest submissions.

[28] Moreover, I do not regard this case, in any event, as being exceptional.

[29] I thus decline the second defendant’s application for party and party costs. He is, however, entitled to his disbursements. I order the plaintiffs to pay the second defendant’s reasonable disbursements in the sum of \$2,419 within 10 working days of the issue of this judgment.

Strike out application

[30] Section 74 of the Patents Act provides:

74 Remedy for groundless threats of infringement proceedings

- (1) Where any person (whether entitled to or interested in a patent or an application for a patent or not) by circulars, advertisements, or otherwise threatens any other person with proceedings for infringement of a patent, any person aggrieved thereby may bring action against him for any such relief as is mentioned in subsection (2) of this section.
- (2) Unless in any action brought by virtue of this section the defendant proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a patent or of rights arising from the publication of a complete specification in

respect of a claim of the specification not shown by the plaintiff to be invalid, the plaintiff shall be entitled to the following relief, that is to say:

- (a) A declaration to the effect that the threats are unjustifiable; and
 - (b) An injunction against the continuance of the threats; and
 - (c) Such damages, if any, as he has sustained thereby.
- (3) For the avoidance of doubt it is hereby declared that a mere notification of the existence of a patent does not constitute a threat of proceedings within the meaning of this section.
- (4) It is hereby declared that a notice given under section 85 of this Act does not constitute a threat of proceedings within the meaning of this section.

[31] As the heading of s 74 explicitly states, the provision provides a statutory remedy for groundless threats of infringement proceedings. It is damages under s 74(2)(c) that the second defendant claims.

[32] The following ingredients of the section are relevant:

- a) The conduct of a defendant which provides grounds for the remedy is threatening a person with proceedings for infringement (s 74(1)).
- b) There is an onus on a defendant (tantamount to a defence) to prove that the acts which prompted the threatened proceedings would constitute an infringement of a patent (s 74(2)).

[33] Counsel provided me with a copy of the 1950 report of the Commission to Inquire into and Report upon the Law of Patents, Designs, and Trademarks which was presented to Parliament.

[34] In paras [232]-[234] the Commission discussed the New Zealand predecessor of s 74(3) and the earlier 1939 New Zealand legislation. To that provision the Commission said it had given:

anxious consideration to this section, which has considerable importance as affording protection against possible oppressive action on the part of the patentee or others who, rather than take action for infringement, seek to

achieve their object by the more subtle method of threats against rivals or their customers.

[35] The Commission expressed the view that the provision (which remained unaltered) might be productive of avoidable litigation.

[36] The plaintiffs seek to strike out the counterclaim, limited at the moment to a short paragraph and a prayer for damages under s 74.

[37] The counterclaim cause of action which the plaintiffs seek to strike out is contained in para 23 of the defendants' sixth amended statement of defence and counterclaim which was filed during the course of the trial before Fisher J in April 2003. That paragraph briefly states:

The defendants are interested and aggrieved by the existence of the Lucas patent and the conduct of the plaintiffs in threatening and bringing proceedings to enforce the Lucas patent.

Mr Gray accepts that this brief pleading seems to invoke s 74.

[38] The prayer for relief seeks an inquiry into damages "for groundless threats of infringement" pursuant to s 74(2)(c) of the Patents Act, plus costs and interest.

[39] The jurisdiction to strike out a claim is sparingly exercised. A strike out application proceeds on the assumption that the pleaded facts are true. A court may strike out a proceeding where the causes of action are so clearly untenable they cannot succeed. (See generally *R Lucas & Son (Nelson Mail) Ltd v O'Brien* [1978] 2 NZLR 289 (CA); *Takaro Properties Ltd (in receivership) v Rowling* [1978] 2 NZLR 314 (CA); *Gartside v Sheffield, Young, and Ellis* [1983] NZLR 37, 45 (CA); *Couch v Attorney-General* [2008] 3 NZLR 725 (SC)).

[40] Mr Gray's submission was to the effect that, essential to a s 74 cause of action, must be the threat to bring proceedings, not the proceedings nor the orders made in the proceedings themselves.

[41] Counsel were able to find only one New Zealand authority on s 74, *HL Tapley & Co Ltd v White Star Products Ltd* [1957] NZLR 612. This authority does not really assist with the issue before me.

[42] In Mr Gray's submission no threat of the plaintiffs to issue proceedings caused the defendants damage. Rather it was the making of an injunction by Rodney Hansen J in February 2001 which forced the defendants to alter the nature of their business.

[43] Counsel referred to the English case of *Carflow Products (UK) Ltd v Linwood Securities (Birmingham) Ltd* [1998] FSR 691, a judgment of Laddie J in the Patents Court. I need not recite the facts of that case. Suffice to say the dispute was over the registered design of a steering wheel lock. Threats of an alleged infringement had been made which resulted in the aggrieved party withdrawing the allegedly infringing item both from sale and from its sales catalogue. This caused financial loss.

[44] The Judge correctly observed (at 693) that a claimant had to establish a causal link between the wrongful conduct and the damage. On the evidence the decision to withdraw the product was due to the service of a writ. Without the writ the product would not have been withdrawn. The writ did not crystallise the threat. It was an entirely new event which determined the defendant's actions. Once the writ had been served the prior threatening correspondence was of little more than historic interest (at 696).

[45] The second defendant tried to counter this argument by submitting that there is a distinction between a threat to bring proceedings and to threaten someone with proceedings. If the latter, it was the proceedings themselves which was the threat. This distinction was apparent in ss 70(1) and 70(5), contrasted with s 70(4), of the UK Patents Act 1977.

[46] The second defendant submitted the original threats to bring proceedings were made in mid August 1994. The threats have only recently been abated by the plaintiffs' proceeding being discontinued.

[47] The second defendant considered important policy issues were at stake.

The counterclaim for damages for ungrounded threats remains the only significant statutory remedy against a powerful patentee pursuing frivolous, burdensome, and grossly unfair infringement action against an innocent and weaker market opponent.... I submit that commonsense dictates that a significant damages claim is appropriate for the patentee's action in successfully destroying his major competitor through groundless infringement proceedings.

[48] On the strike out issue the second defendant submitted the defendants clearly had a tenable cause of action. So far as the infringement aspect of the claim is concerned their position had been vindicated by the Supreme Court.

[49] I accept, without detailing, that this protracted proceeding spread as it has been over 11 years, has caused the second defendant and his family enormous stress, strain, and financial loss. Keane J too accepted this. The central issue, which must be determined in this strike out compass, was whether the second defendant's loss is potentially compensable under s 74.

[50] The scope of s 74 and whether it can properly be a vehicle for the type of claim the second defendant wishes to make, has not been the subject of any New Zealand authority. *Carflow Products* is analogous but not binding in the New Zealand jurisdiction.

[51] The issue I have articulated in [49] is ultimately one of statutory interpretation. The heading of the provision refers to groundless threats **of** infringement proceedings. Section 74(1) refers to circulars, advertisements, or otherwise threatening **with** proceedings for infringement of a patent.

[52] The mischief which I consider the damages remedy which s 74 (with its reverse onus) addresses is that of trade competitors trying to deter or frighten a competitor with proceedings which are groundless. I consider that if the threat is made good and the proceeding actually issues, then as Laddie J commented (supra [44]), the predecessor threats are of historical interest only.

[53] It would be straining the interpretation and purpose of s 74 to hold that the provision provides an avenue whereby an ultimately successful litigant can achieve compensation for the consequential losses of the litigation.

[54] The defendants were vindicated after a considerable delay and after four of the nine judges who had considered the issue had found against them. It would be a nonsense to suggest that, had the matter stopped at the Court of Appeal, the defendants could have obtained some form of counter-balancing redress under s 74.

[55] Additionally I notice the mismatch between s 74(1) and para 23 of the defendants' counterclaim (supra [37]). The statute refers to the threat of proceedings. The counterclaim seeks relief for "threatening and *bringing* proceedings".

[56] For these reasons I am satisfied that the counterclaim of the second defendant which remains afoot is untenable. There is no basis for the claim. Section 74 is not designed to provide a statutory remedy in this situation. Accordingly it is struck out.

Costs

[57] The hearing before me was precipitated by the plaintiffs' unheralded and unexpected notice of discontinuance. The discontinuance arrived some months after Heath J had adjourned the plaintiffs' application for amendment. The second defendant has in recent times acted for himself. As a lay litigant it would have been extremely difficult for him to assess, in any measured way, the procedural consequences to his counterclaim of the plaintiffs' discontinuance of the substantive proceeding.

[58] The second defendant has constructed well-researched and careful submissions. He has throughout been respectful of the Court. To some extent his ultimate victory in the Supreme Court has turned to ashes. The second defendant's vehicle for commercial activities went into liquidation. His financial losses are, I am sure, considerable.

[59] Because he has represented himself throughout, the second defendant has not qualified for the normal award of party and party costs which would have flowed the way of a represented litigant.

[60] Although, having succeeded on an opposed strike out application, the plaintiffs would in the normal course of events be entitled to a modest costs award, considering the unusual circumstances of this case an award of costs against the second defendant would be to rub salt unnecessarily into the wound.

[61] Accordingly, for the above reasons, and in the exercise of my discretion, I order that costs are to lie where they fall.

Result

[62] The plaintiffs are ordered to pay the second defendant's disbursements of \$2,419 within 10 working days.

[63] The second defendant's counterclaim invoking s 74 is struck out.

[64] Costs lie where they fall.

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Priestley J