

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

CIV 2009 404 5331

BETWEEN	EFFECTIVE ENGINEERING LIMITED First Appellant
AND	MARINUS EDUARDUS JOHANNUS KULIK AND KINGSLEY STANHOPE GORDON Second Appellants
AND	ECOCOVER LIMITED First Respondent
AND	ECOCOVER DEVELOPMENTS LIMITED Second Respondent

Hearing: 22 September 2009

Appearances: L Ponniah for Appellants
S H Barter for Respondents

Judgment: 22 September 2009

ORAL JUDGMENT OF CHISHOLM J

[1] On 6 August 2009 Judge Harvey made an order for an interim mandatory injunction:

“(a) ... requiring the defendant to deliver to the first plaintiff all drawings, plans, diagrams, memoranda, correspondence, contracts, and all emails and documents relating to the setting of key codes for the operation of the control module.

(b) ... requiring the defendant to deliver to the registrar of the District Court at Auckland, a complete and up to date set of all design working drawings held by it, or any of its sub-contractors and relating to each and every part of the

EcoCover plant manufactured by the defendant, together with all accessory parts and or modules.

- (c) ... *permitting the first plaintiff to inspect without being able to copy the drawings mentioned in the second order above, to ensure proper compliance with that order.*"

It was also stated that the plaintiffs (respondents in this Court) could only use the material to ensure the continued operation of the equipment in the Czech Republic and Australia, and for no other purpose.

[2] The appellants (defendants in the District Court) appeal against those orders. Although 11 specific grounds of appeal were advanced, these can be condensed. In broad terms it is alleged by the appellants that: the respondent failed to establish a clear case justifying a mandatory injunction; the Judge effectively determined the substantive issue concerning the ownership of the relevant copyright; third parties were compromised by the orders; the appellants having provided an undertaking there was no justification for the orders; and damages would provide an adequate remedy.

Background

[3] In 1999 Murray Cruickshank, who is a director of the first respondent and associated with the second respondent, purchased the intellectual property relating to a plant which enables paper based mulch to be used for weed control. The mulch provides an alternative to the use of black plastic. At that time the project was in its infancy.

[4] Over the ensuing years Mr Cruickshank developed the concept. In 2004 the first appellant became involved in the design and manufacture of the plant. Ultimately two plants were installed in the Czech Republic and Australia.

[5] A control module was developed to enable royalties, which are based on the production of the plants, to be monitored. Unless a "key code" is renewed on a regular basis the plants will cease to operate.

[6] Over recent times the parties have fallen out. It seems that there were two principal issues.

[7] First, there was an issue about ownership of the copyright in the plant, including the control module. The appellants claim that in terms of s21(1) of the Copyright Act 1994 the first appellant was the author of, and owns, the copyright. They also contend that the control module is entirely separate from the remainder of the plant and that this is relevant to the copyright issue. On the other hand, the respondents claim that the first respondent has paid the first appellant around \$850,000 and that this included the design and construction of the control module. Thus they contend that they commissioned and agreed to pay for the intellectual property and are therefore entitled to ownership under s21(3)(a) of the Act.

[8] Secondly, there was an issue concerning invoices totalling something over \$70,000. According to the appellants those amounts were payable for design work undertaken by the appellants. Liability was denied by the respondents who maintained that the appellants had been paid in full. Although the respondents have made a payment of \$34,000 there are lingering issues concerning the balance.

[9] Matters came to a head on 17 July 2009 when the first appellant sent the first respondent an email in the following terms:

“The code for operating the machine at Zvoleneves is due to run out on Monday 20th July.

We required the payment of the overdue invoices regarding the installation in the Czech Republic before a new code can be generated and forwarded to the machine.

A cheque delivered to us today would be the best option as the renewal date is Monday.

For the invoice amounts overdue, please contact Sally who will give you the exact number.”

It is not seriously disputed that without a new code being generated and forwarded to the machine in the Czech Republic, the machine would come to a halt.

[10] Through their solicitors the respondents accused the appellants of “*duress of the worse kind*”, denied that there were any outstanding invoices, and threatened to seek a mandatory injunction. The appellants’ solicitors reply on 22 July 2009 included the following:

“4. We note that your letter of 20 July 2009 threatens an injunction, specifically relating to the code required to ensure that the Czech Republic machine is operational. We understand from our client, and from the first paragraph of your letter of 21 July 2009, that the Czech plant is operational. There is, therefore, no justification for any injunction application. We will accordingly proceed on that basis ...”.

The letter went on to say that the dispute between the parties in relation to outstanding monies was relatively complex and a counterclaim would be filed.

[11] Within a few days proceedings were issued in the District Court by the respondents (as first and second plaintiffs). The statement of claim sought an order in the nature of a mandatory injunction requiring the defendants (the first and second respondents) to hand over all drawings and designs. Damages and exemplary damages were sought. There was also an application for interim relief along the lines ultimately granted.

[12] Included in the affidavits filed in opposition to the application is an affidavit by Kingsley Gordon, a director of the first and second defendants (appellants), deposing:

“9. The first defendant is within its rights to request payment for overdue invoices before undertaking further work under a contract with any party, including the plaintiffs. That is what we did in our email of 17 July 2009. In fact, even before 20 July 2009 cut off, the first defendant corrected the malfunction so the plant in the Czech Republic was operational. I can assure the Court that at no time would the first defendant have rendered the machine in the Czech Republic or anywhere else, inoperable. I also confirm by this affidavit that the first defendant will not use the codes to render inoperable the plants in the Czech Republic or in Australia, unless directed in writing by the plaintiffs or by order of the Court. The fact still remains, however, that there is money overdue from the first plaintiff on invoices issued that have not been paid, yet we are being requested to continue doing work.” (Underlining added).

District Court Decision

[13] Judge Harvey delivered an oral decision. After traversing the history of the matter he concluded that the issue was about who owned the intellectual property. He said at [24]:

“[24] It is not possible at this stage of the proceedings to determine with any degree of clarity whether or not it is more likely that the copyright vests with EcoCover Limited rather than Effective Engineering Limited.”

He went on to say that he had read the affidavit evidence, had not had the benefit of cross-examination, and did not consider it was the purpose of interim applications to determine substantive issues.

[14] The Judge recorded the considerations traditionally involved in an application for an interlocutory injunction: is there a serious question to be tried?; does the balance of convenience favour the injunction?; are damages an adequate remedy?; and does the overall justice of the case favour the grant of an injunction? There is no issue about those principles.

[15] Then the Judge discussed the principles relating to mandatory injunctions. He referred to observations in *Locobail International Finance Ltd v Agroexport* [1986] 1 All ER 901 (CA) about a high degree of assurance being required that it would appear at trial that the interim injunction had been rightly granted; to comments in *McDonald Motors Ltd v Christchurch International Airport Ltd* (1991) 4 TCLR 407 about the caution required to ensure that the order would not create contractual rights to which the plaintiff would not ultimately be entitled; and to *Leisure Data v Bell* [1988] FSR 367 in which it was commented that a mandatory order will only be made to deal with a situation which could not wait until trial. Reference was also made to *Telecom NZ Limited v Clear Communications Limited* (1997) 10 PRNZ 622.

[16] I pause here to observe that there is no real issue that mandatory injunctions require particular caution. There is, however, a sharp divergence between the approach of the appellants and respondents in this case. Whereas the appellants take a relatively rigid approach based on the first three cases referred to in the previous

paragraph, the respondents rely on the fourth case to support their proposition that it depends on all the circumstances whether a mandatory injunction will be justified.

[17] The primary conclusions reached by the Judge can be summarised. First, there was a serious question to be tried. According to the appellants the Judge erred by applying that threshold and failing to apply the higher threshold required for mandatory injunctions. Secondly, damages would not be an adequate remedy because the plant “*would literally grind to a halt and gum up*” which could give rise to international litigation involving third parties. Again the appellants maintain that the Judge was wrong and that damages would have been an adequate remedy in this case. Finally, the Judge concluded that the balance of convenience and overall justice favoured the making of an order because the orders that he was about to make would not pre-empt the copyright issue and it would avoid third parties being prejudiced. Once again the appellants contend that he was wrong.

This Appeal

[18] As the arguments developed the issues became more refined. This Court is, of course, sitting as an appellate Court and must apply appellate principles. It would be contrary to appellate principles for this Court to become sidetracked on some of the issues that Mr Ponniah sought to raise.

[19] It is convenient to divide the appeal into two broad aspects: first, the issues arising from the first order requiring delivery of the documents relating to the setting of key codes; secondly, the order requiring a complete set of drawings to be delivered to the Registrar.

First order concerning key codes

[20] A number of issues were raised by the appellants.

No urgency or immediate threat

[21] The appellants contend that they were never going to carry through on any threat contained in the email of 17 July 2009 and that this was made clear to the

respondents within a very short time (and prior to the issue of proceedings). They claim that the proceedings by the respondents constituted an over-reaction to the situation, especially given the undertaking contained in Mr Gordon's affidavit. Under those circumstances the Judge should have declined to make any orders.

[22] Clearly the appellants were playing with fire when they made the threat contained in their email of 17 July. But it is also true that within a short time they had taken steps to retrieve the situation. Judge Harvey addressed this issue by asking himself which stance was to be relied on and concluded that in all the circumstances a Court order was appropriate. On my reading of the decision the order relating to the code was intended to avoid any issues involving renewals of the code arising before the substantive issue could be determined. My understanding is that the next renewal will be in February 2010.

[23] Judges are not obliged to accept undertakings: see, for example, *Perry Group Limited & Anor v Pacific Software Technology Limited & Anor* (High Court, Hamilton Registry, CP55/01, 14 November 2001) which has parallels with this case. In that case Randerson J made mandatory orders requiring a defendant to deliver up to the plaintiffs a source code notwithstanding that an undertaking had been proffered.

[24] I have not been persuaded that the Judge erred in principle when he decided that an order should be made regardless of the undertaking contained in Mr Gordon's affidavit. This ground of appeal fails.

[25] While on the topic of undertakings it is convenient to mention another undertaking - the undertaking relating to damages. Mr Ponniah argued that the Judge should not have accepted the undertaking for damages without more detailed information concerning the financial ability of the respondents to meet the undertaking. Although Mr Cruickshank deposed in his affidavit that the respondents (as plaintiffs) were able to meet the undertaking, this was challenged by Mr Gordon.

[26] It was for the Judge to determine whether he required any further information on this topic. In the event he appears to have been satisfied that the undertaking and

supporting information were sufficient. That approach was open to him, and I am not prepared to interfere.

No clear case

[27] As already mentioned, the appellants' position is that the first appellant is the prima facie owner of copyright because it was the author. Given the Judge's comments at [24] of his judgment (see [13] above), Mr Ponniah argued that the necessary foundation for a mandatory injunction did not exist. He claimed that if the District Court was disposed to make any order, it should have issued a prohibitory injunction, not a mandatory injunction.

[28] For the respondents Mr Barter argued that there is clear evidence that the relevant work was commissioned by the respondents and that they had agreed to pay for it. Thus they are the owners of the copyright. He referred to an email of 18 February 2005 from the first respondent to the first appellant asking that work be started, to the "*draft proposal*" by the first appellant at pp 42 – 46 of the agreed bundle (which he noted included reference to the control module and contemplated copies of the computer programme would be delivered to the respondents), and to invoices from the first appellant to the second respondent which specifically covered design work.

[29] It is, of course, impossible for any Judge to finally determine factual disputes at an interim stage. As is often the case, there is a direct conflict between the affidavit evidence on behalf of the competing parties. However, I would have thought that the documentary evidence before the Court supported the respondents rather than the appellants. In this respect I have in mind the documents referred to by Mr Barter.

[30] Whether this means that the respondents (as plaintiffs) had a "*clear case*" or some other description might apply is probably debatable. However, in the present context the important point is that, while mandatory injunctions are rare and the Court must exercise considerable caution when granting them because they are likely to alter the status quo, there is no magic formula. As Fisher J observed in *Telecom*

New Zealand Limited v Clear Communications Limited at 102,335, each case turns on its own circumstances. A similar approach was taken by Randerson J in *Perry Group Limited & Anor v Pacific Software Technology Limited & Anor*.

[31] Given that all the circumstances need to be considered before it can be determined whether a mandatory injunction should have been granted in this case, it is appropriate to refer to the other matters raised by the appellants before finally determining that issue.

The order resolved substantive issues

[32] Mr Ponniah argued that the order effectively resolved the substantive issues between the parties. This cannot possibly be right.

[33] The Judge carefully confined the use of the key code documentation to ensuring the continued operation of the equipment in the Czech Republic and Australia “*and for no other purpose whatsoever*”. Although Mr Ponniah attempted to raise issues concerning the maintenance contract, I believe those issues are irrelevant. The order was confined to a very specific and unequivocal purpose. I find it impossible to understand how this could have the effect of resolving the underlying issue of copyright ownership.

Impact on third parties

[34] It was argued on behalf of the appellants that the interests of Advanced Electrical Systems Limited will be compromised by the order. The appellants seem to be claiming that this company owns the intellectual property in the control module software.

[35] Again, I fail to see how this can be so because the interim order was made for a very specific purpose of providing information that will enable the code to be renewed. As Mr Barter said, the respondents will shortly be aware of all relevant documentation by virtue of discovery and it is difficult to see how Advanced Electrical Systems Limited could suffer any prejudice. I also note that in a memorandum at p47 of the agreed bundle that company agreed that all development

software copies would be supplied to the first appellant and their customer – the first respondent. While, as Mr Ponniah pointed out, that memorandum seems to relate to heating components of the machine, it would be odd if a different stance was adopted in relation to the control module.

[36] So I do not accept the appellants' argument based on prejudice to Advanced Electrical Systems Limited. On the other hand, as the Judge noted, there would be obvious prejudice to the users in the Czech Republic and Australia if the code was not renewed.

Damages an adequate remedy

[37] The Judge rejected that proposition. While it seems that he might have overstated the position (given the evidence before him) by stating that failure to activate new codes would cause the plants not only to grind to a halt but also to “*gum up*”, it is not disputed that the machines would grind to a halt. Nor is it disputed that both machines are located offshore. The potential for international litigation involving third parties surely rules out any realistic possibility that damages would provide an adequate remedy. Moreover, the potential impact upon innocent third parties is a very powerful factor in support of the granting of relief.

[38] I have not been persuaded that the Judge erred when he concluded that damages would not be an adequate remedy in this case.

Conclusions as to the order relating to the key codes

[39] Effectively I have come full circle. None of the issues raised by the appellants have led me to the conclusion that the Judge erred by granting some form of relief in relation to the key codes to avoid either the Czech or Australian plants being rendered inoperable. The remaining issue is whether there should have been a *prohibitory* rather than a *mandatory* injunction.

[40] There is considerable force behind Mr Ponniah's argument that if there was going to be an order it should have been prohibitory rather than mandatory. With the benefit of that argument (and the benefit of hindsight) I would probably have

endeavoured to formulate a prohibitory order rather than a mandatory order if I been dealing with the matter at first instance. But I am not dealing with the matter in that context and it is necessary for me to confine myself to appellate principles.

[41] While the matter is finely balanced, I have concluded that this is not a case where I should tinker with the order that was made. The mandatory order is extremely narrow and in practical terms it would probably make little difference if it was expressed in prohibitory terms. One way or other an order was justified to ensure that there will be no further hiccups between the parties pending the substantive hearing which will not realistically take place before the next renewal in February 2010.

Second order concerning delivery of drawings to the Court

[42] There is little, if any, discussion in the judgment about the need for this order. It can be inferred that the Judge was sufficiently concerned about the email of 17 July to conclude that evidence in the way of drawings etc held by the defendant needed to be preserved.

[43] However, the email of 17 July was specific and cannot provide a proper foundation for inferring that there is a risk that the appellants would attempt to destroy evidence. Although the application sought such an order, there was no evidential foundation for it. Effectively a preservation order has been made through the back door. It cannot stand.

Outcome

[44] The appeal against the order requiring delivery of drawings etc relating to the key codes (orders (a) (c) and (d)) is dismissed. On the other hand, the appeal against the order requiring delivery of a complete set of drawings to the Registrar (order (b)) is allowed and that order is quashed.

Costs

[45] For the respondent Mr Barter contends that the bulk of the appeal hearing has concentrated on the “*key codes*” issue and that the respondents have been largely successful. He submitted that the respondent should receive 75% of costs that would have been awarded had they been totally successful.

[46] That approach is rejected by Mr Ponniah for the appellants. He contends that the judgment just delivered indicates that the appellants came close on the key codes issue and that when the success on the other issue is taken into account it is appropriate that costs lie where they fall.

[47] Both parties have been partly successful in this appeal. While I can understand Mr Barter’s argument, I think the best outcome is for costs to lie where they fall. There will be no order as to costs.

Solicitors: Corban Revell, Waitakere City for Appellants
Barter & Co, Albany Village for Respondents