

# Krone (NZ) Technique Ltd v Connector Systems Ltd

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## Krone (NZ) Technique Ltd v Connector Systems Ltd — (1988) 1 NZPC 184

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High Court Wellington

CP649/88

6, 7 October 1988

Eichelbaum J (In Chambers)

### Headnotes

***Transfer of proceeding — Where cause of action arose — Whether convenient to have proceedings transferred — Discovery — Documents in pleading — Confidential documents — Whether discovery permissible before statement of defence filed — Definition of “necessary” — High Court Rules, RR 107, 184, 306, 307, 309, 312, 479.***

The plaintiffs brought proceedings alleging that the defendants had breached their copyright. The defendant resided in Auckland, the plaintiff in Wellington. The plaintiffs argued that Wellington was the most appropriate venue for the proceeding because the material cause of action was based there. But the defendant stated that Auckland would be a more convenient venue. The defendant also sought the production of documents under R 307, after giving notice in accordance with R 306.

**Held** (dismissing the application for transfer, allowing discovery in part)

(1) There was ample evidence to prove that the material cause of action took place in Wellington and that therefore the plaintiffs should have the right to hear the case there. As the question of convenience was doubtful, it followed that the defendants' application for transfer would be dismissed.

(2) Documents referred to in a pleading do not form part of the pleading. Even if notice for discovery is given under R 306, parties are still not automatically entitled to copies of those documents.

(3) No rule prevents discovery from taking place before pleading, but the Court should determine what degree of disclosure is required. The level of “necessary” discovery, as outlined in R 312, implies an element of reasonableness. As the defendant had proved the necessity of referring to the documents in accordance with R 312, the Court would enable access. However, as it was not necessary for the defendant to have a copy of every document at this stage of the proceeding, discovery would be limited to the experts working on behalf of the defendant.

*AR Galbraith QC and CL Elliott* for defendant

*BWF Brown* for plaintiff

### EICHELBAUM J.

The statement of claim states that the second plaintiff, a company incorporated in the Federal Republic of Germany, manufactures and sells in several countries a range of equipment comprising an insulation displacement terminating system known as the Krone-LSA-plus system. For convenience I will call it the KLP system. In

conjunction with the third plaintiff, an Australian company, the first plaintiff, which is incorporated in New Zealand, holds the exclusive licence for the sale of the KLP system in this country.

One of the components of this system is a backmount frame (the “Krone frame”) whose function it is to provide a frame to accommodate the KLP system of insulation displacement terminating equipment, comprising a range of wire terminating modules or magazines and other components. The Krone frame is produced in a number of forms so as to accommodate different multiples of terminating modules or magazines.

The second plaintiff alleges it is the owner in New Zealand of copyright in certain artistic works, namely (a) certain drawings, four in number, which in the statement of claim are identified by a number and a date, prepared for the purpose of producing what is described as the “ten position” Krone frame; (b) a sculpture and/or engraving and/or metal being a blanking tool used in the manufacture of the ten position Krone frame; (c) sculptures and/or engravings being the stainless steel ten position Krone frames themselves.

The defendant, a New Zealand company, is alleged to have infringed the second plaintiff’s copyright in the foregoing artistic works. As to the manner of the alleged infringement I will have to say a little more shortly.

Particulars given in relation to the infringement are that the defendant’s ten position frame, referred to as the ADC frame, is a reproduction of the artistic works; and various details are given of dimensions of the ADC frame which are said to be substantially identical with the corresponding measurements of the Krone frame.

As to the breach of copyright of the drawings referred to in (a) above, which is all that the applications presently before the Court are concerned with, the allegation is one of indirect copying.

The plaintiffs seek relief by way of a declaration of infringement, damages, and an injunction.

There is a second and alternative cause of action seeking similar relief but for present purposes it is unnecessary to go into any detail concerning that cause of action.

Now before the Court is an application by the defendant comprising several separate matters with which I have to deal in turn.

#### *Transfer of proceedings*

Under this heading the defendant’s first contention is that the proceeding has been commenced in the wrong Court. It was commenced in the Wellington registry in reliance on an affidavit as to where a material part of the cause of action arose, the first plaintiff having its registered office in Wellington. The point taken in the affidavit was that the defendant had sold backmount frames through its Wellington office. I treat that as equivalent to saying that the defendant had sold the frames in Wellington. That assertion was not denied but the defendant has deposed that the value of the items sold was inconsequential, and that in any event no issue will be taken regarding the fact of sale of such frames in New Zealand. That the particular allegation may ultimately turn out to be uncontested is irrelevant so long as it in fact constitutes one of the necessary ingredients of the cause of action. The cause of action is the factual situation, the existence of which enables the plaintiff to obtain its remedy; “The act on the part of the defendant which gives the plaintiff the cause of complaint”, to quote the definition preferred in *Dillon v MacDonald (1902) 21 NZLR 375*. I accept the approach to interpretation of the word “material” adopted by Quilliam J in *Colman v A-G (1978) 3 PRNZ 577* — pertinent, germane, or essential to.

At the outset, Mr Galbraith’s argument proceeded on the basis that what was in issue was an allegation of infringement by importation, s 10(2) Copyright Act 1962. However, Mr Brown contended that in addition there was an allegation of infringement by way of sale — s 10(3)(a). Although that was not my first impression either, I think I have to agree that paras 10, 11, and 12 of the statement of claim are at least capable of being so construed. The allegation of actual selling contained in para 10 would be irrelevant if the only allegation was infringement by importation under s 10(2). The point is of some practical importance because such evidence as is presently before the Court indicates that the defendant itself in fact manufactures the frames in New Zealand.

Mr Galbraith remarked, I think correctly, that if Mr Brown’s contention was correct the pleading was defective; two causes of action being rolled up into one. However, I do not think that the criticism detracts from the plaintiff’s position on the present application. I am satisfied that the statement of claim raises a cause of action of selling under s 10(3) and I think it is clear that an allegation of an actual sale must be regarded as a material part of the cause of action so framed. Accordingly the first plaintiff was entitled to take advantage of the provisions of R 107(2) High Court Rules to file its proceedings in the Wellington registry rather than in Auckland, where the registered

office of the defendant is situated. The contention that the proceedings were commenced in the wrong Court therefore fails.

The defendant's alternative argument is that it would be more convenient to have the proceedings in the Auckland registry. I should say at the outset that there can be no suggestion that in any sense the litigation has a real connection with Wellington; it cannot be said that the subject-matter of this proceeding has an obvious connection with any particular place as is sometimes plain, for example in defamation claims. The mere sale of a few components in Wellington clearly is insufficient to enable the case to be regarded in that light.

The plaintiff is located in Wellington where its advisers are resident so from their point of view it would be more convenient to have the litigation continue here. Conversely, the defendant and its New Zealand advisers are all in Auckland so they would prefer to have the litigation proceed there. Wherever the litigation continues, these circumstances will result in inconvenience to one party or the other.

This last factor apart, the principal points made on behalf of the defendant were:

- (1) All the defendant's witnesses would be overseas or Auckland based;
- (2) The defendant's manufacturing business is in Auckland and bulk distribution is made from there;
- (3) The defendant's Auckland office has a staff of 50 whereas its Wellington office has a staff of only 6;
- (4) The defendant was manufacturing the ADC backmount frame under licence from ADC Telecommunications Inc (ADCT Inc), a Minnesota company with international connections;
- (5) Having regard to the likelihood that personnel from ADCT Inc would need to come to New Zealand in connection with the hearing, Auckland would be a more convenient venue;
- (6) The defendant's documentation and records generally were kept in Auckland. Production and inspection would be facilitated there.

In response Mr Brown's main points were:

- (1) The plaintiffs' only office in New Zealand was in Wellington where its principal customers had their central offices;
- (2) The office was a small one with a staff of only five. It would be inconvenient to have one or more of its staff in Auckland for any length of time for purposes of preparation for and the hearing of the proceeding. It was submitted that because of its larger establishment the corresponding inconvenience to the defendant in coping with a hearing in Wellington would be significantly less;
- (3) The overseas witnesses from the second and third plaintiffs would come to New Zealand via Australia from where they could conveniently fly to Wellington;
- (4) In any event it would be wrong to regard the case as one where "battalions" of overseas witnesses would necessarily be required.

In addition, reference was made in submissions to the question whether an early hearing would be more likely to be achieved in Auckland or in Wellington. Because of arrangements which the parties have been able to reach, no application for interim injunction has been pursued but nevertheless, because of the nature of the proceedings, ideally they should be disposed of without undue delay. The question of difficulty in having substantial civil matters heard at an early date may properly be taken into account in relation to those registries which have circuit sittings only, but as between the two principal registries in the country having continuous sittings, I do not think that one can really approach an application such as this on the basis of possibly fine differences in delay. I think one can only proceed on the assumption that in either registry a particular proceeding will receive as early a hearing as it deserves and is reasonably practicable having regard to other priorities. In an affidavit mention was made of the possibility of transfer of the proceedings to the Commercial List in Auckland, but in submissions that was not pursued.

The present application falls to be determined under R 107(4) but the principles relating to the approach to the question whether the proceeding can be dealt with "more conveniently" at another place must be the same as in respect of an application for change of the trial venue under R 479 in respect of which Rule the legal principles are well established. A comparison between relative advantages and disadvantages of the existing and proposed venue is involved requiring a balancing exercise. The plaintiffs' initial nomination of venue in itself is not probative of convenience. The onus on the applicant should not be regarded as in some way especially difficult to discharge:

*Consumer Council v Pest Free Service Ltd* [1978] 2 NZLR 15. The factual matters to be taken into account may of course be of different weight or emphasis depending on the particular stage of the proceedings when application is made.

During the course of argument I suggested that perhaps the application was premature. Except in the sense of convenience of counsel and advisers, it did not seem to matter whether the interlocutory stages were dealt with in Wellington or Auckland. However, in response it was pointed out that the determination of the venue would have some bearing on future planning, for example in relation to the selection of New Zealand expert witnesses. I can see that there is merit in having the position settled now. The result of dealing with it at this stage however is that the evidence about likely witnesses and the domicile is necessarily somewhat exiguous. That is understandable because at this stage the issues cannot have been refined very much, if at all.

As to interlocutory proceedings, I do not think anything more can be said than has been stated already, namely that Wellington will be more convenient to the plaintiffs and Auckland for the defendant. This factor apart, nothing has been put before the Court to indicate that from an overall point of view interlocutory steps can more conveniently be conducted in the one place rather than the other. In this stage of the proceedings, looked at from an overall point of view, the scales of convenience do not tip in one direction or the other.

So far as the trial is concerned and the immediate phase of preparation for it, there are additional considerations relating to the domicile of witnesses, particularly those coming from overseas. Again however, whether it is Auckland or Wellington would appear to make little difference. In answer to the plaintiffs' contention regarding the Australian connection, it has been said, I think correctly, that Auckland is equally if not more easily accessible from the major Australian cities. It is common knowledge that the differences in flying time are insignificant. Overseas witnesses from USA or Europe may fly direct to Auckland from or through America, but in a relative sense the additional time involved in reaching Wellington city is too small to constitute a decisive disadvantage. So in respect of the trial itself I reach the same conclusion as in regard to the position at the earlier stage, namely that there is no overall balance of convenience either way. It is simply one of those situations where it would suit each side best to have the litigation in its home town and the other side will necessarily suffer some inconvenience or disadvantage. Accepting, as noted earlier, that the onus is not an especial or difficult one, such as it is the defendant has been unable to discharge it. The alternative application for transfer therefore fails also.


#### *Copy of drawings*

As noted, a central allegation under the first cause of action is that indirectly the defendant has copied certain drawings in which the plaintiffs claim copyright.

While the plaintiffs have permitted the drawings to be inspected by counsel and patent attorneys representing the defendant, they have refused to provide copies. They have not objected to counsel or patent attorneys making their own drawings or notations at the time of inspection. The plaintiffs however have stipulated that the drawings are to be treated as confidential and that any sketches and notations are not to be released to the defendant. The plaintiffs take the view that copies should not be available, if at all, until after the defendant has pleaded to the statement of claim and has provided its list of documents.

Defendant's patent attorney has deposed that copies of the drawings are required to make the full and proper inquiry necessary to investigate and plead to the plaintiffs' allegations. The manufacture and marketing of the ADC backmount frame is carried out under licence from ADCT Inc. It has been deposed, and I accept, that in order to obtain full and proper instructions it will be necessary for information to be sought from employees of ADCT Inc which is described as a substantial company involved internationally in the telecommunications industry. I accept that to obtain proper instructions the defendant's advisers will need to be able to discuss the drawings, the subject of the first cause of action, with the defendant's officers, and as well with employees of ADCT Inc. In an affidavit sworn on 5 October 1988 Mr Gurr, the managing director of the defendant, stated that copies of drawings received by his company would not be distributed to any person outside the company. Mr Galbraith asked me to note that Mr Gurr recognised that that was not put correctly, and that the intention was they would not be distributed outside the defendant company or ADCT Inc.

The plaintiffs say that they are very concerned at what they consider to be clear infringements of their copyright. They point out that neither the existence of the copyright nor the allegation of copying has been accepted. Having regard to the defendant's attitude in response to their claim, the plaintiffs are reluctant to release copies of their drawings, which they regard as confidential, when they have no control over whether those copies will be further copied and as to their ultimate disposition.

The defendant's first contention was that it was entitled to a copy of the drawings as of right and without the restriction of any conditions because they were referred to in a pleading. The only authority cited for that proposition was *Day v William Hill (Park Lane) Ltd* [1949] 1 KB 632  where Singleton LJ said:

. . . if documents are referred to in a pleading they become part of the pleading and so it is open to the Court to read them."  
(p 639)

The context of that remark was that the Court was dealing with an objection to the admission of an affidavit in support of an application made under the Court rules to strike out a statement of claim as disclosing no reasonable cause of action. Thus the effect of Singleton LJ's response just quoted was to suggest that no affidavit was required to bring such a document before the Court. In other words the Court was not dealing with the application on evidence, as would have been open to objection, but merely considering something deemed to be part of the pleading itself. The question of how an opponent obtained access to such a document did not arise. Accordingly the dictum is not directly in point. It is however of assistance to this extent: that it demonstrates that the documents in question should be regarded as part of the pleading; and in the case of a statement of claim, at first sight at any rate the proposition that a defendant must be entitled to a copy of such a document, is appealing.

However, the fruits of such research as I have been able to conduct do not lend any support to the existence of such a principle. To the contrary, the Court rules, here and in England, proceed under the assumption that the fact that a document is referred to in a pleading is simply one manner of providing the foundation for applications for production and inspection. Refer R 307(1)(a) High Court Rules, 13 *Halsbury* (4th ed) p 51 para 62, O 24, R 10 of the Rules of the Supreme Court, and the *Supreme Court Practice* 1988, Vol 1 p 432. The New Zealand rule (R 184) that it is sufficient to plead the effect of documents, rather than set them out in full, also appears to run counter to the existence of the principle contended for by the defendant.

Without any disrespect at all to counsel, to whom I am obliged for the succinct way in which they dealt with the issues arising, this particular point was referred to only briefly, and no doubt more could be said on the topic than the rather cursory remarks I have made myself. My decision is that there is no such principle as the defendant maintained. I think it would be unfortunate if there was. It would not seem right that parties should be deterred from raising causes of action or defences which necessitate reference to sensitive documents in the pleadings, in fear that the Court would be unable to offer them any protection once the reference to the document had been pleaded. Indeed, I would have thought that if the rules were regarded as not covering the position, the Court would assume power to afford protection under the inherent jurisdiction.

Turning now to the alternative footing on which this point was argued, it was not in dispute that the rules conferred jurisdiction to make the orders sought as a matter of discretion and subject to conditions. Rule 306 provides inter alia that where a pleading refers to a document any party on whom it is served may by notice require the other party to produce the document for inspection. Rule 307 states that where it appears from a pleading that any relevant document is in the possession of a party the Court may, unless the document is privileged, order that party to produce the document for inspection, or to serve a copy of the document. A party to whom a document is produced for inspection under R 306 or R 307 may make copies, refer R 309. Further, on the application of a party to whom a document is produced for inspection, under R 306 or R 307 the Court may order the party having the document in his possession to furnish the applicant with a legible copy. Such order may be on such terms as the Court thinks fit, including a direction that the document be marked to the effect that it is a copy furnished for purposes of inspection only. It may be useful to record that under subcl (4) of R 309, a party who obtains a copy under that rule shall make use of that copy only for the purposes of the proceeding, and except for those purposes shall not make it available to any other person.

In the present case the documents are referred to in the Statement of Claim, the defendant has given notice to produce under R 306, the documents have in fact been produced for inspection, and jurisdiction therefore exists to make an order in terms of R 309(2) and (3) if the Court thinks fit.

It may seem obvious that at some stage of the progress of this litigation the defendant will have to be provided with better access to the drawings than the plaintiffs are willing to provide at the moment. I have used the broad phrase "better access" so as not to appear to prejudge the question of the precise terms and conditions which is certain to come before the Court again unless the parties reach agreement upon it. If that moment is inevitable why, it may be asked, should it be postponed?

As Barker J said in *Sunde v Meredith Connell & Co* (High Court, Auckland A1479/85, 19 September 1986) (see



[1987] *Recent Law* p 184), the general scheme apparent in the High Court Rules is to erode the system of advocacy which kept cards close to the chest: “The whole aim of the Rules is to arrive at the truth; if necessary the Rules assist the parties in coming to a recognition of the proper issues and, through that recognition to a settlement of disputes”. Under an earlier regime it may have been possible to argue that pleading should almost invariably precede discovery; but if one considers the impact of rules such as R 309, and perhaps even more significantly R 299 under which it is possible for an intending plaintiff to obtain discovery (and, subsequently, production) before proceedings are commenced, or R 301 where it is possible to obtain discovery against a non-party, the basis of the general remarks made by Barker J become self-evident.

Here of course the defendant does not go so far as to seek general discovery before the close of pleadings. It is a question of the pleadings themselves. The plaintiffs having incorporated reference to certain documents in the statement of claim, the statement of defence must necessarily refer to those allegations. The plaintiffs could not possibly expect the defendant to plead without someone on the plaintiff’s behalf at least seeing those documents. That indeed the plaintiffs have already accepted. Although parties to litigation are generally entitled fully to know what has been disclosed to their legal and technical advisers so as to be able to make judgments of their own, this principle must be subject to modification if trade secrets are to be protected, *Warner-Lambert & Co v Glaxo Laboratories Ltd* [1975] RPC 354. The headnote of that decision from which I have just quoted goes on to say that in appropriate circumstances the Court may even be justified in wholly excluding disclosure of secret material from a particular party, but it has not been suggested that such course is called for here. The question is whether a wider audience, such as officers of the defendant company, and employees or advisers of ADCT Inc should see the drawings at this stage, and if so how far that permission should extend, for example whether simply by viewing the documents or by way of allowing them to take or be supplied with copies. In my opinion, subject to consideration of suitable conditions, it is inevitable that sooner or later some of those persons in what I called the wider audience be permitted to see the documents for themselves.

I have had the opportunity overnight of reading the authorities to which I was referred by counsel for the plaintiff, namely *British Markitex Ltd v Johnston* ([1987](#)) 1 NZPC 69; *TD Haulage Ltd v MK Hunt Foundation Ltd* (1986) 1 PRNZ 668; *Centri-Spray Corp v Cera International Ltd* [1979] FSR 175; *Format Communications Mfg Ltd v ITT (UK) Ltd* [1983] FSR 473; and *General Video International Ltd v DFC* (High Court, Wellington A2/84, 4 September 1985, Williamson J). None dealt with the special problem of documents forming part of a pleading to which the opposite party has to respond. Nevertheless, several of them are helpful in the expositions they contain of the approach to the balancing exercise involved in protecting sensitive commercial information on the one hand, while permitting the opposite party fair access to documents relevant to the litigation on the other. *Warner-Lambert Co v Glaxo Laboratories Ltd*, already mentioned, which is cited in some of the decisions listed, contains useful guidance in this respect. I refer particularly to the judgment of Buckley LJ at p 356. However, as pointed out in the same judgment at p 358 there is no formula suitable for universal use. The Court has to decide what measure of disclosure there should be, bearing in mind that if a case for disclosure is made out, the applicant should have as full a degree of appropriate disclosure as will be consistent with adequate protection of any trade secrets of the respondent.

Returning to the question I posed earlier, whether there was any good reason why better access should be postponed, the plaintiffs’ prime answer was that the defendant had not shown, as required by R 312, that the order was “necessary”; necessary, as the rule states, at the time the order is made. It was said that the defendant could plead to the statement of claim without further access to the drawings, and that it would not prejudice the defendant if its inquiries concerning the drawings were postponed until a later stage. That stage, in the plaintiffs’ submission, should be at earliest when the pleadings had closed and the defendant had filed its list of documents.

In the context of R 312 “necessary” in my opinion is not used in an absolute sense, such as “essential”. It should be interpreted as importing a notion of reasonableness, that is as meaning reasonably necessary. I agree that the defendant could file a statement of defence without inspection of the drawings in a wider way, but even if the realistic likelihood is that the allegation of copying will be denied in any event, it cannot be regarded as recommended practice to plead to an allegation without knowing what the allegation is, and effectively that is the defendant’s position, as distinct from that of its advisers, at present.

I take the view that so far as R 312 is concerned the defendant has sufficiently discharged the onus of bringing the situation within that rule. To clarify that, I mean that the defendant has shown that it requires broader access than that afforded so far before it files its statement of defence. I have yet to determine the extent of that access. Further, no doubt there still remains a residual discretionary decision. During the hearing I endeavoured to isolate any specific source of potential prejudice to the plaintiffs if further disclosure took place sooner rather than later, but the only points raised were first a desire to have the defendant commit itself to a statement of defence and a list of documents before it obtained further access to the drawings, and secondly an unease that the defendant might put

the documents to improper use. The second is in my language but I think it captures the essence of Mr Brown's properly cautious submission. Both points deserve consideration. In the absence of anything more specific however, I do not see that the first amounts to the hope of gaining some tactical advantage. The second represents a risk, ever present in intellectual property litigation, which is safeguarded as best can be by the Court Rule already quoted (R 309(4)) plus the imposition of special conditions where appropriate. I add that although the drawings are referred to as confidential documents, a description which I accept, the plaintiffs' evidence did not particularly stress their secrecy or sensitivity. While I am prepared to infer that they would be of value to competitors of the plaintiffs, this is a common enough situation which will have to be dealt with by means of the nature of the order made and the conditions attached. Finally, to refuse an order altogether would in my opinion be unfair to the defendant, and would also delay the progress of the litigation unnecessarily.

As to the furnishing of a copy however, balancing all factors up, in my opinion the critical consideration is that postponement of that question will not cause any lasting prejudice to the defendant. It will probably mean building some delay into the final disposition of the case, but that is mainly detrimental to the plaintiffs, who are prepared to wear it. On the other hand, once the plaintiffs are forced to supply a copy, the cat is permanently out of the bag. The plaintiffs are fully and irrevocably exposed to the risks they fear. My view is that at the present stage, that is before the defendant has filed its statement of defence and answered discovery, the defendant should reasonably be allowed to have the drawings viewed by an officer of the defendant, by an expert on the defendant's behalf if the defendant so wishes, and by a USA patent attorney. I am not prepared to permit those persons to take copies, nor to direct the plaintiffs to supply any at the present time.

It was agreed that the question of conditions would require further consideration before a formal order could be made. The matter of details of the arrangements and all other or incidental terms and conditions will therefore be stood over. I expect that the parties will agree on some if not all of these issues, but I direct that at the request of either party the Deputy Registrar is to arrange the earliest practicable appointment before me when either a formal order can be made including agreed conditions, or alternatively I will settle any outstanding points in that respect. I record my view that the order should include leave to apply so as to facilitate further applications. The time for filing the statement of defence is extended until 30 days from the date of the ultimate order.

*Application to join defendant*

On the defendant's request (not opposed by the plaintiffs) this part of the application stands adjourned sine die. It may be brought on at seven days' notice.

*Costs*

Costs are reserved.