

RIO BEVERAGES LTD v FRUCOR BEVERAGES LTD

High Court, Auckland (CL17/99)  
Salmon J

3 May; 13 May 2002

*Costs — Indemnity costs — Factors justifying award — Need for culpability — High Court Rules, r 48C.*

The plaintiff sought an injunction to prevent the defendant from using a particular trademark, and claimed exemplary damages. After interlocutory proceedings, the defendant gave an undertaking to the plaintiff in terms similar to those it had sought before the commencement of litigation. The offer was not immediately accepted, but some months later the plaintiff applied to dismiss the proceedings and for costs against the first defendant.

The plaintiff sought indemnity costs on the grounds that the defendants had acted vexatiously, frivolously, improperly, or unnecessarily in defending the proceedings.

**Held**, (1) under r 48C(4)(a), the Court may order indemnity costs if a party has acted vexatiously, frivolously, improperly, or unnecessarily in commencing, continuing, or defending a proceeding or a step in a proceeding. (para 12)

(2) It could not be said that the defendant had acted in such a way after proceedings had been issued. Nor could it be said that it had acted vexatiously, frivolously, or improperly in commencing proceedings. (paras 13, 15)

(3) The use of the word “unnecessarily” had added a new dimension to the circumstances in which indemnity costs had traditionally been considered. However, the meaning of the word in r 48C had to take its colour from those preceding it. There had to be an element of culpability attaching to the actions of the defendant. As that was not present, indemnity costs would be refused. (paras 18, 19)

**Cases referred to**

*Registered Securities Ltd v Westpac Banking Corp* (2000) 14 PRNZ 348

**Reference**

*McGechan on Procedure* para HR48C.04

**Application**

This was an application for costs on an indemnity basis.

*G J Judd QC* for plaintiff

*C Elliott* for defendants

**SALMON J** (reserved): [1] In the application before the Court the plaintiff seeks dismissal of the proceeding and an order for costs.

[2] The plaintiff and the first defendant are beverage manufacturers. The plaintiff manufactures and markets in New Zealand a beverage under the name, e2. The plaintiff has applied for registration of that trademark in Australia, but has not commenced trading there. The plaintiff learned that the first defendant had applied to register the trademark g2 in Australia. On 13 April 1999 the plaintiff's solicitor wrote to the first defendant requiring written undertakings:

- (a) That the defendant would immediately withdraw its application for registration of the trademark g2 in Australia.
- (b) That it would not market either in Australia or New Zealand any beverage product using the trademark g2.

The solicitor's letter contended that the trademark g2 was obviously derived from the mark e2.

[3] No undertakings were received. The first defendant advised the plaintiff that it would not withdraw the trademark application but would sell it to the plaintiff for \$100,000.

[4] These proceedings were commenced on 7 May 1999. They seek an injunction to restrain the first defendant from using the trademark g2 and exemplary damages of \$1 m.

[5] There were interlocutory proceedings concerning the existence of patent attorney client privilege. A decision given in this Court in favour of the plaintiff was reversed by the Court of Appeal in a judgment dated 22 March 2001. Two days prior to that, on 20 March, the first defendant wrote to the plaintiff undertaking:

By itself its servants agents or otherwise howsoever from selling offering for sale exposing for sale exhibiting in public or distributing beverages using the trademark g2 while you have effective legal right e2 through use or registration. The company also undertakes to forthwith withdraw any trademark applications for g2.

[6] This undertaking was effectively in the same terms as the one proposed by the plaintiff prior to litigation commencing. The offer was not immediately accepted by the plaintiff. It filed an application for conditional leave to appeal to the Privy Council. The first defendant decided that rather than continue with this interlocutory litigation, it would waive the patent attorney privilege the existence of which had been the subject of the interlocutory proceedings.

[7] The plaintiff withdrew its application for conditional leave to appeal and some 2 months later on 20 September 2001 filed this application for dismissal of proceedings and order for costs.

[8] The defendants do not consent to the application to dismiss the proceedings, but do not oppose that application. I have no doubt that given the stage these proceedings have reached and the attitude of the parties, the proper course to follow is to grant the application to dismiss the proceedings. They are accordingly dismissed subject to determination of the application for costs.

[9] The application for costs is made in respect of the first defendant only. The plaintiff seeks indemnity costs on the basis that the defendants have acted

vexatiously, frivolously, improperly or unnecessarily in defending the proceeding. The application is based upon r 48C(4)(a) of the High Court Rules which provides the Court with a discretion to grant indemnity costs in such circumstances.

[10] Mr Judd QC acknowledges that he would not be entitled to costs after 20 March 2001, and it was conceded too that indemnity costs would not be appropriate in relation to the interlocutory proceedings concerning patent attorney client privilege. Mr Judd acknowledged that if the Court were to determine that indemnity costs were not appropriate the proper rate by reference to the Rules would be category 2 band B.

[11] For the defendant, Mr Elliott submitted that the defendants had not acted vexatiously, frivolously, improperly or unnecessarily in defending the proceeding. He said the undertakings were given in circumstances where liability was expressly denied and that in the end the defendants had made a commercial decision not to proceed with what it saw as a pointless, but expensive exercise. He submitted that it was well established that indemnity costs are only awarded in exceptional circumstances and will not be ordered unless the proceedings are “utterly without foundation”: *Registered Securities Ltd v Westpac Banking Corp* (2000) 14 PRNZ 348, 348. He also submitted that an award of indemnity costs in advance of the determination of the substance of a plaintiff’s case is very rare because it is only after trial that the ultimate merits are apparent and account can be taken of the way in which the litigation has been conducted.

## Discussion

[12] Rule 48C(4)(a) provides:

- (4) The Court may order a party to pay indemnity costs if—
  - (a) The party has acted vexatiously, frivolously, improperly or unnecessarily in commencing, continuing or defending a proceeding or a step in a proceeding.

[13] In this case it cannot be said that once the proceedings were issued the defendants acted in such a way. After all, not only was an injunction sought, but also \$1 m in exemplary damages.

[14] The plaintiff’s argument, however, is that it should never have been necessary to issue the proceeding because ultimately the first defendant provided the undertaking originally sought.

[15] For the purposes of this judgment I am prepared to give the rule a broad meaning so as to include the circumstances of the original request for undertakings. I do not consider that the defendant acted vexatiously, frivolously or improperly in not agreeing to the plaintiff’s original proposal. There was very little time for the defendant to investigate the plaintiff’s concerns upon receipt of the plaintiff’s solicitor’s letter of 13 April. That letter gave 7 days for receipt of the undertakings required. The undertakings related to withdrawing an application for registration of the trademark g2 in Australia. Although the plaintiff had applied for registration of its trademark in Australia that application had not been granted and nor, at that stage had the plaintiff’s product been marketed in Australia, although it expressed its intention of doing so. There were obviously issues which the defendant was entitled to explore.

[16] It is also the case, of course, that no determinations have been made on the merits and it is not possible to do so in the present circumstances. In the context of these proceedings any finding that the defendants had acted vexatiously, frivolously or improperly could only be made after a determination on the merits.

[17] The question then is whether the defendants acted unnecessarily in defending the proceeding. The use of the word unnecessarily adds a new dimension to the circumstances in which indemnity costs have traditionally been considered. Previously indemnity costs were awarded only in exceptional circumstances such as when proceedings were issued utterly without foundation. A party who acted vexatiously, frivolously or improperly would be a likely subject for such an award. In this case it cannot be said that the defence to the plaintiff's proceedings was entirely without foundation. That can be said if for no other reason, than that it has not been argued.

[18] The addition of the word unnecessarily potentially significantly broadens the circumstances in which such costs could be awarded. It could be argued that every unsuccessful party in litigation has acted unnecessarily in prosecuting or defending it. That can hardly have been the intention of those who drafted the new cost rules.

[19] I am satisfied that in interpreting r 48C the meaning to be attributed to the word unnecessarily must take its colour from the words that precede it. There must be some element of culpability attaching to the actions of the defendant in defending the proceedings. That cannot be said in the present case and I, therefore, decline the plaintiff's application for indemnity costs.

[20] In the circumstances, however, I am satisfied that the plaintiff is entitled to scale costs on the basis of category 2 band B. The giving of the undertaking effectively means that the plaintiff has succeeded in its proceeding. However, the usual rule applies to the interlocutory proceeding. Because the defendant succeeded in the Court of Appeal it should be entitled to its costs both in that Court and this Court. In the light of this ruling I expect that the parties will be able to agree on the appropriate level of costs. If that is not so, leave is reserved to refer the matter back to the Court.

*Indemnity costs refused*

Reported by Andrew Beck