

SUPREME COURT OF QUEENSLAND

CITATION: *Evans Deakin P/L v Orekinetics P/L & Ors* [2002] QSC 042

PARTIES: **EVANS DEAKIN PTY LTD ACN 000 002 031**
(plaintiff)
v
OREKINETICS PTY LTD ACN 089 630 928
(first defendant)
AND
PETER JON GATES
(second defendant)
AND
PETER SCOTT DAVIS
(third defendant)

FILE NO: S6082 of 2001

DIVISION: Trial

DELIVERED ON: 13 February 2002

DELIVERED AT: Brisbane

HEARING DATE: 31 January 2002

JUDGE: Chesterman J

- ORDER:
1. That an order for inspection be made subject to the submission of further material relevant to the terms on which an inspection should be ordered.
 2. That the application is adjourned to a date to be fixed to allow the parties to prepare material relevant to the terms on which an inspection should be ordered.
 3. That the plaintiff has leave to amend its application to include an order:
 - (i) that within seven days of the date of this order the defendants by their solicitors provide the plaintiff with a list setting out in relation to each of the Corona-Stat and the Ultra-State devices:
 - (a) to whom these devices had been sold; and
 - (b) the location of such devices.
 4. That within seven days of the date of this order the defendants by their solicitors provide the plaintiff with a list setting out in relation to each of the Corona-Stat and the Ultra-State devices:
 - (a) to whom these devices had been sold; and
 - (b) the location of such devices.
 5. That the costs of and incidental to the application be reserved.

CATCHWORDS: INTELLECTUAL PROPERTY – CONFIDENTIAL INFORMATION - Plaintiff applied for leave to inspect defendant’s property under r250 *UCPR* – whether there was sufficient evidence to warrant an order – whether preconditions to exercising discretion under r250 were satisfied – plaintiff showed sufficient grounds to justify an order for inspection.

Uniform Civil Procedure Rules r 250

American Chain and Cable Co Inc v Halls’ Barton Ropery Co Limited (1938) 55 RPC 287, considered

British Xylonite Co Ltd v Fibrenyle Ltd (1959) RPC 252, followed

The Germ Milling Co (Ltd) v Robinson (1884) 1 RPC 217, considered

Unilever Plc v Pearce [1985] FSR 475, considered

Wahl & Simon-Solitec Ltd v Buhler-Miag (England) Ltd [1979] FSR 183, followed

Warner-Lambert Co v Glaxo Laboratories Ltd [1975] RPC 354, considered

COUNSEL: S Burley for the applicant
D M Logan for the respondent

SOLICITORS: McCullough Robertson for the applicant
Hynes Lawyers for the respondent

- [1] **CHESTERMAN J:** The plaintiff claims injunctions and allied relief against the defendants to prevent their use of confidential information. It is a well known engineering concern a division of which has been engaged in the research, development, manufacture and sale of equipment, the purpose of which is to separate the mineral content, particularly titanium, from sand in which it occurs. Separation is effected by electromagnetic charges which attract the metal but not the sand. Mineral bearing sand is poured into a machine where it passes through an electromagnetic field over plates and rollers with the result that the titanium is separated from the sand and eventually follows a different path through the machine to where it is collected in a hopper.
- [2] For some years the second defendant was employed by the plaintiff in its research division. He rose to the position of manager. He was responsible for the improvement of separation equipment manufactured by the plaintiff. The third defendant was also employed by the plaintiff in its research division. He was a draftsman who answered to the second defendant. The first defendant is a company owned and controlled by the other defendants. It carries on the business of designing, manufacturing and selling separation equipment in competition with the plaintiff.
- [3] The second defendant resigned from his employment on 5 February 1999. The third defendant resigned on 15 April 1999. On 11 February 1999 the second defendant commenced to conduct a business known as “Orekinetics”. The plaintiff alleges that its business was that of designing, manufacturing and selling separation equipment in competition with the plaintiff. The defendants deny that there was

such a business before about 21 September 1999, when the second defendant's "Orekinetics" business was assigned to the first defendant, and he and the third defendant became directors and shareholders of the first defendant.

- [4] The plaintiff's case is, in essence, that the defendants, in particular the second defendant, is manufacturing and selling machines for the extraction of minerals from sand utilising knowledge or discoveries gained from his activities as manager of its research division. It claims that information is confidential and belongs to it because the second defendant was employed for the very purpose of making such discoveries for the improvement of the separation machines manufactured and sold by the plaintiff. The confidential information is particularised in the statement of claim as being:
- "(a) Information relating to the development of an electrode made of glass enclosing metallic conductive material . . .
 - (b) Information obtained by testing prototypes of the glass electrode under various conditions.
 - (c) Information relating to the development of a large diameter roller for use in an electrostatic separation device . . . to maximise the deficiency of mineral separation . . .
 - (d) Information resulting from the testing of various prototype rollers to determine preferred or optimum diameter size . . .
 - (e) Information resulting from tests conducted to determine the preferred or optimum settings for the placement of single or multiple electrodes . . .
 - (f) Information relating to the development of a rotating plate (drum) electrostatic separator device with a variable speed drive.
 - (g) . . .
 - (h) . . ."
- [5] In or about May 1999 the first and/or second defendants prepared an advertising brochure, called a "product release" for one of their separation machines, the "Ultra-Stat".
- [6] The brochure asserted that Orekinetics had:
- "Recently developed a revolutionary new electrostatic separator that offered vast improvements over traditional high tension roll and electrostatic plate separators . . . The combined effect of the inventive features of the Ultra-Stat separator provides solutions to many of the limitations of existing technologies . . . Unique electric field pattern improves uniformity of particle charging and consequently the separation reflects more closely the particles' conductive properties. Machine geometry including electrode position can be factory set requiring no plant adjustment. . . . Revolutionary machine design offers unique automatic cleaning of coatings . . ."

The second defendant does not dispute the production of the brochure but contends that it has never been published in Australia.

- [7] On 23 March 1999 the second defendant lodged a provisional patent application entitled "Improvements to electrostatic roll separators". The day before he had

lodged another provisional patent application, this one entitled “Method and apparatus for the electrostatic separation of particulate material”. On 25 March he lodged a further provisional patent application, “Method for the dry separation of particulate materials”. On 14 May 1999 a fourth provisional patent application was lodged by the second defendant to which was given the title “Method and apparatus for the electrostatic separation of particulate material – new features”.

- [8] It was said by the plaintiff’s solicitors in correspondence which was not expressly answered or controverted, that the specification for the provisional patent application lodged on 22 March 2001 (I assume this is a typographical error and the year 1999 was intended):

“. . . refers to (the second defendant) having conducted a substantial amount of testing. The specification itself is quite lengthy and appears to have taken some time to produce. . . . Is the proposition seriously put . . . that in the six week period after he left (the plaintiff’s) employ he had not one but two revelations concerning the construction of two new particle separation machines totally without regard to work he was doing as research and development manager for (the plaintiff) (and) that after having these well timed revelations he tested two new inventions . . . and gave instructions for the preparation of three provisional patent applications . . .”

- [9] The plaintiff has applied, pursuant to *UCPR 250*, for an order that the defendants make available for inspection by the plaintiff’s legal representatives and an engineering expert two electrostatic separation devices respectively known as the “Ultra-Stat” and the “Corona-Stat” as well as “any other electrostatic separation device designed, made or sold by the defendants”. It is proposed to keep the plaintiff ignorant of the results of the inspection. The plaintiff’s lawyers and expert who will conduct the inspection have offered to execute confidentiality agreements limiting the knowledge gained from the inspection for use in the litigation.

- [10] The defendants oppose the application principally on the basis that the plaintiff has not made out a case which would justify the court making the order sought.

- [11] To appreciate the defendants’ point it is convenient to consider the authorities they rely upon. *The Germ Milling Co. (Ltd) v Robinson* (1884) 1 RPC 217 was a case in which the plaintiff was a miller who had patented a process for manufacturing meal and flour from wheat, maize and other grain. The defendants were also flour millers whom the plaintiff suspected of infringing their patent. The plaintiff commenced an action claiming an injunction to restrain the infringement and sought, by notice of motion, an order that it be at liberty to inspect the defendants’ mill. The application was refused because the plaintiff produced no evidence that the defendants’ milling operation utilised the plaintiff’s patented process. Kay J said (219):

“. . . The Plaintiff does say . . . ‘I . . . believe that the Defendants are now manufacturing wheat into flour by means of my said invention . . .’. The first thing I have to consider is what sort of evidence is that? . . . What other grounds for that belief? There are absolutely none . . . stated. That means this, then: ‘I suspect . . . that the Defendants are manufacturing according to my process’. Thereupon, without any particular, without any evidence . . . of infringement . . . the Plaintiff comes to the Court and says ‘Grant me inspection’. The defendants’ answer . . . ‘I have a great many processes in my mill

which are trade secrets, which I do not want people to inspect'. That is a very good answer unless the Plaintiff makes out a strong ground for inspection . . . and this is really no more than this, . . . 'I suspect, and I will not tell you my grounds for suspecting, that the Defendant is infringing this elaborate process of mine, and I ask for leave to go and look into his works to see whether I can make a case against him or not'. That is not the way in which the court can grant inspection . . ."

- [12] Next was a decision of Simmonds J in *American Chain and Cable Co Inc v Hall's Barton Ropery Co Limited* (1938) 55 RPC 287 in which the judge, refusing an application for inspection of a machine alleged to be used in a process infringing a patent said:

"I do not think that this rule was intended to pave the way for what may well prove nothing more than a fishing inspection of the defendants' machinery. Where I find, as here, the evidence shows that a particular article may be made either by infringing the patented process or without infringing the patented process and there is nothing to guide the court to a conclusion one way or the other, I do not think . . . the court ought to order an inspection . . ." (292).

The reference to "this rule" was to an amended rule of court which appeared to have expanded the circumstances in which the court could order the inspection of property "as to which any question may arise". The earlier rule limited the making of an order for inspection to cases where a plaintiff had made out a prima facie case of infringement. The remarks were made in that context.

- [13] Perhaps the leading case for the defendants is *British Xylonite Co. Ltd. v Fibrenyle Ltd.* (1959) RPC 252 which has been subsequently endorsed in later English decisions, though it does not appear to have been considered in any reported Australian case. There was an appeal from an order refusing the plaintiff leave to inspect the defendant's machine which was alleged to utilise a process protected by the plaintiff's patent. The end result of conflicting affidavits and expert opinion was that the defendant may have been able to make, and therefore may have made, its products without infringing the patent. The judge followed the lead suggested by *American Chain* and declined to permit inspection. The decision was reversed on appeal. A passage in the reasons for judgment of Romer LJ have been accepted as containing the relevant statement of principle. His Lordship said (263):

" . . . An order for inspection will normally go as of course if a prima facie case of infringement is established; but . . . it is not necessary in all cases for a Plaintiff . . . to go as far as that. Provided that the Defendant's interests are properly and adequately safeguarded . . . I think that a Plaintiff should be allowed inspection if the court is satisfied that there really is a substantial and genuine issue to be tried. It is, of course, perfectly true that inspection should never be ordered on a mere fishing application, but when, as here, an experienced and well-known independent expert swears that he believes that there has been infringement and gives reason of some significance to support that belief, I see no reason why the order should not be made, even though the Defendants' expert gives reasons, also a substance, challenging the views of the Plaintiff's technical advisor."

It should be noted that the court was concerned to refute the notion that a plaintiff had to make out a prima facie case of infringement before the court would order inspection.

- [14] In a subsequent case, *Wahl & Simon-Solitec Ltd v Buhler- Miag (England) Ltd* [1979] FSR 183, Whitford J said (185):

“It is . . . wrong to jump to hasty conclusions; one must look at the evidence to see what the case is with the view to deciding whether or not it would be appropriate to make an order for inspection . . . It is . . . established . . . that one does not make orders for inspection save in circumstances where it would appear that it would be appropriate that such an order should be made. I was referred to . . . *Germ Milling Co . . . and . . . British Xylonite . . .* (which) . . . was . . . an extension of the earlier approach . . . going only to this: that if it seemed there were formidable grounds for saying that infringement might well be taking place, then an order for inspection might be appropriate.”

- [15] The formulation of principle by Romer LJ was also accepted as correct by Buckley LJ in *Warner-Lambert Co v Glaxo Laboratories Ltd* [1975] RPC 354 at 356 and by Falconer J in *Unilever Plc v Pearce* [1985] FSR 475 at 481.

- [16] The defendants argue that the evidence does not show a substantial and genuine issue to be tried or that there are formidable grounds for saying that infringement might well be taking place. They point to the paucity of the plaintiff’s material in support of the application to inspection. There is one affidavit, and that from the plaintiff’s solicitor, who recites, but does not verify, the essential allegations set out in the statement of claim. A point of importance for the defendants is that there is no evidence of the kind suggested by Romer LJ, namely an expert opinion founded on substantial grounds that the apparatus or procedure sought to be inspected infringes or misuses the plaintiff’s intellectual property.

- [17] There is substance in the argument and my mind has vacillated in the course of considering what order should be made. I have in the end concluded that the plaintiff had made out a case for inspection. The plaintiff’s material, sparse though it is, does establish some pertinent facts by the affidavit and by admissions contained in the amended defence. The plaintiff and the first defendant are competitors in the manufacture and sale of machines that separate or extract minerals from enveloping sand. The second defendant was for a number of years employed by the plaintiff in its research division, one at least of the functions of which was to discover and implement improvements to the function of such machines. Within a very short space of leaving the plaintiff’s service the second defendant lodged provisional patent applications with respect to improvements to the design or operation of separation machines. There is some slight evidence that a substantial amount of investigation and testing had been undertaken in order to prepare the applications. Not long after the second defendant commenced business in competition with the plaintiff he could describe one of his machines as “revolutionary”, and “of recent development”.

- [18] It is true, as the defendants contend, that there is no clear evidence that the defendants’ machines are the product of any particular information confidential to the plaintiff obtained by the second or third defendants while in the plaintiff’s

employment. Nevertheless I think it appropriate to allow the plaintiff to inspect the defendants' machines. *UCPR* 250 provides that:

- “(1) The court may make an order for the inspection . . . of property if –
- (a) the property is the subject of a proceeding or is property about which a question may arise in a proceeding; or
 - (b) inspection of the property is necessary for deciding an issue in a proceeding.
- (2) Sub-rule (1) applies whether or not the property is in possession, custody or power of a party.
- (3) . . .
- (4) In the order, the court may impose the conditions it considers appropriate . . .
- (5) The court may set aside or vary the order.”

[19] There is no doubt that the defendants' machines are property about which a question may arise in the proceedings. I also think it likely that inspection of the machines will be necessary for deciding an issue in the proceedings. The precondition for the exercise of the discretion is satisfied. The question is whether the court should exercise its discretion in favour of inspection. I think the true principle is that explained by Whitford J in *Wahl*:

“One must look at the evidence to see . . . whether or not it would be appropriate to make an order for inspection. . . . One does not make orders for inspection save . . . where . . . it would be appropriate . . .”

The discretion conferred by the rule is a wide one. It should not be limited by the superimposition of conditions not found in the rule itself. The order should not be made unless, on the material before the court, it is proper to do so. It must be remembered that the rule exists to promote the efficient and economical conduct of litigation. If the result of an inspection would tend to bring about such a result the discretion should, I apprehend, ordinarily be exercised in favour of inspection subject to there being some counter-vailing circumstance. To say that there must be formidable grounds for alleging an infringement before inspection will be ordered is to say only that there must be sufficient grounds for making the order. I do not think there is any benefit in using any more particular or pejorative adjective. It is no doubt true that an order for inspection of property will not be made unless there is some evidence that the plaintiff's rights are being infringed and that an inspection will facilitate proof of the claim. This, I expect, is all that is meant by saying there must be a substantial and genuine dispute. There are, of course, degrees of suspicion as well as of proof. It is pointless to resort to semantic differences and refuse inspection where there is “mere suspicion” of an infringement, but allow it where there is “strong suspicion” or “proof” of it, even if the proof be weak. The discretion conferred by *UCPR* 250 should be addressed by considering whether in all the circumstances of a particular case the plaintiff has shown sufficient grounds for intruding on the defendant's property.

- [20] In my opinion inspection of the defendants' machines is likely to provide a firmer framework for the dispute than would exist without it. It is likely to limit the scope for misunderstanding or irrelevancies to develop. It will assist the parties to define the features of the machines which are said to incorporate information the plaintiff claims to be confidential to it. In the long run it is likely to save time and costs. I concur in the remarks of Romer LJ in *British Xylonite* (263):

“I cannot help feeling myself that sooner or later an inspection will have to be made, and the sooner it is made the better for reasons of economy and saving further trouble and expense.”

The defendants all but concede that inspection of their machines will be appropriate in the future, at least if the plaintiff deposes in more detail to its case. I think it pointless to require the parties to engage in more interlocutory skirmishing. There is already, in my opinion, an indication of contrivance in the defendants' solicitors' correspondence in answer to the plaintiff's requests for inspection.

- [21] It is also relevant when considering whether there are counter-veiling factors that the defendants' machines are available for sale. The plaintiff could purchase one, or more, and subject it or them to such inspection and examination as it liked. Furthermore the machines have been put on display at a trade expedition in Perth where one of the plaintiff's employees was permitted to examine it cursorily. I am also conscious that the parties are trade competitors and that the first defendant is a modest operation while the plaintiff is a company of very considerable size and wealth. In the words of Evershed MR in *British Xylonite* “a small company” should not be “heavily pressed” by an order for inspection. I do not think that will be the result if appropriate orders for respecting the defendants' own trade secrets are made.
- [22] The defendants also object to the width of the order sought. They contend that any order should be limited to inspection of the Ultra-Stat machine, essentially because the Corona-Stat was developed later and has more tenuous connections with any information that the first, second and/or third defendants might have taken from the plaintiff. Likewise they contend that the order in respect of “any other electrostatic separation devices “ is no more than an attempt to fish out a case.

I do not agree. The Corona-Stat is plausibly alleged to be an advance on the earlier machine made possible by the unlawful use of the plaintiff's confidential information in its development. The reference to “any other devices” is meant to permit inspection of models or prototypes of the other machines.

- [23] By an affidavit delivered late the second defendant deposes that none of the defendants are in possession of a Corona-Stat or Ultra-Stat machine and, as well, they object to the suitability of the plaintiff's proposed expert and claim there are inadequacies in the confidentiality agreements prepared by the plaintiff for their protection. The plaintiff had insufficient time to respond to these points. I indicated at the hearing that if I thought an order for inspection should be made I would say so, but defer the further hearing of the application to allow the parties to address those points. To overcome the problem that the defendant had no Corona-Stat or Ultra-Stat machines available for inspection the plaintiff sought leave to amend the application to include an order:

“That within seven days of the date of this order the defendants by their solicitors provide the plaintiff with a list setting out in relation to each of the Corona-Stat and the Ultra-Stat devices

- (a) to whom these devices had been sold
- (b) the location of such devices.”

The order was said to be necessary to enable the plaintiff to ascertain the most convenient location for the inspection of the machines.

- [24] I give the plaintiff leave to amend its application in the terms just set out and I make an order in those terms. The application will otherwise be adjourned to a date to be fixed to allow the parties to prepare material relevant as to the terms on which inspection should be ordered. The costs of the application will be reserved.