

SUPREME COURT OF QUEENSLAND

CITATION: *Bailey & Anor v Austec Innovations P/L* [2005] QSC 379

PARTIES: **NEVILLE GEORGE BAILEY AND TROY ANTHONY BAILEY**
(applicants)
v
AUSTEC INNOVATIONS PTY LTD ACN 010 985 001
(respondent)

FILE NO: BS5552 of 2005

DIVISION: Trial Division

PROCEEDING: Application

DELIVERED ON: 24 November 2005

DELIVERED AT: Supreme Court, Brisbane

HEARING DATE: 9 November 2005

JUDGE: Wilson J

ORDER:

- 1. That the orders made by the Chief Justice on 11 August 2005 be varied by the addition of orders 1A and 1B as follows:**
 - 1A. That by 2 December 2005 the respondent provide the applicants with all necessary information to enable them to pay to the respondent a deposit of 50% of the purchase price (net of GST) (“the deposit”), upon the order by the applicants by email on 2 April 2005 (“the order”);**
 - 1B. That within 4 months of the payment of the deposit, the first respondent deliver the goods the subject of the order to the applicants.**
- 2. That the respondent pay the applicants’ costs of and incidental to the application filed on 6 October 2005 to be assessed on the standard basis.**

CATCHWORDS: PROCEDURE – JUDGMENTS AND ORDERS – AMENDING, VARYING AND SETTING ASIDE – OTHER CASES – where there is an unresolved contractual dispute between the applicant and respondent - where the Court ordered the respondent to take all such steps as are necessary to complete an order for goods placed by the applicants – where the respondent has not complied with the order - where the applicant seeks precise directions as to what is required of the respondent - where the respondent

alleges that the applicant failed to fulfil a condition precedent to the respondent's obligation to complete the order – where the respondent alleges that it is incapable of completing the order – where there is no evidence to support the respondent's allegations

PROCEDURE - COSTS – DEPARTING FROM THE GENERAL RULE – ORDER FOR COSTS ON INDEMNITY BASIS – where the applicant seeks an order for costs on indemnity basis - where the applicant raises allegations of contrivance against the respondent – where the respondent refutes the allegations – where these matters are not capable of resolution on this interlocutory application

Uniform Civil Procedure Rules 1999, rr 703(1), 704(1)

Di Carlo v Dubois [2002] QCA 225, followed
Fountain Selected Meats (Sales) Pty Ltd v International Produce Merchants Pty Ltd (1988) 81 ALR 397, cited

COUNSEL: RJ Anderson for the applicants
 C Storay (not a legal practitioner) by leave for the respondent

SOLICITORS: Gilshenan & Luton for the applicants

- [1] **WILSON J:** This is an application to vary an order made by the Chief Justice on 11 August 2005 requiring the respondent to take all such steps as are necessary to complete an order for goods placed by the applicants on 2 April 2005.
- [2] Pursuant to an agreement dated 13 February 2002 between the respondent as licensor and the applicants as licensee the applicants are the exclusive licensees to market in Queensland a patented trolley known as "Easitilt". That agreement provides (inter alia) -

“SALE AND PURCHASE OF LICENCED PRODUCTS

THE LICENSOR shall supply LICENSED PRODUCTS to the LICENCEES on the following basis:

- (a) Exclusive of any third party in the LICENCED TERRITORY.
- (b) Within four (4) months of an order being placed with the LICENSOR and appropriate deposit paid.
- (c) Each order of LICENCED PRODUCTS shall be sufficient in quantity to fill one standard twenty feet long shipping container (hereinafter referred to as “FCL”).

...

- (f) Payment of FCL orders of LICENSED PRODUCTS shall be made by the LICENCEES on the following basis:

- (i) A deposit of fifty per cent (50%) of the purchase price (net of goods and services tax) with the order.
 - (ii) Balance on delivery to the shipping port requested in the purchase order when the container of goods has been cleared by Customs and Quarantine for collection. The payment balance shall include goods and services tax, but no other taxes, duty or charges other than those related to late collection of the container.
 - (iii) Failure of the LICENCEES to pay the balance of the purchase price and collect the goods purchased within seven (7) days of notice by the LICENSOR will entitle the LICENSOR to collect and hold the goods in storage for up to thirty (30) days. All costs incurred by the LICENSOR to collect and store said goods, must be reimbursed to the LICENSOR.
 - (iv) In the event the LICENCEES have not paid all money owing and collected the goods within thirty (30) days of notification by the LICENSOR that said goods are available for collection at the shipping port, the LICENSOR shall be entitled to retain possession of the goods and the LICENCEES shall forfeit their deposit paid to the LICENSOR.”
- [3] Mr Craig Storay was the sole director of the respondent until 26 March 2005, when he resigned and was replaced by his wife Ms Narumon Phasombun. He and John Anthony Baldini are the patentees in relation to the hand trolley. The trolleys are manufactured in Thailand and shipped to Australia in containers.
- [4] Customarily, when the respondent received a request for goods from the applicants, it would prepare a packing plan and work out a quotation to supply the nearest number of products that could fit tightly in a 20 foot shipping container. It would submit a quotation to the applicants; their acceptance of it was treated as a purchase order and 50% of the quoted price was paid as a deposit. A formal order would be completed, and the respondent would place an order for the same products with the factory in Thailand.
- [5] On 2 April 2005 the applicants placed container orders for Queensland and Victoria. It is the order for Queensland which is the relevant one:

"Queensland 2 Containers

First Container	234 x SF300 126 x SF180
Second Container:	99 x DL1600 55 x DL1300 96 x TH300"

- [6] On 8 April 2005 the respondent purported to terminate the agreement on 90 days' notice.
- [7] By letter dated 9 May 2005 Mr Storay (apparently in his capacity as patentee) advised his wife (in her capacity as managing director of the applicant) of the expiry of relevant intellectual property licences on 30 June 2005.
- [8] There is an unresolved dispute between the applicants and the respondent relating to an earlier order. The applicants allege short supply, which the respondent vehemently denies, and refuse to pay the full balance of the purchase price. The respondent alleges that there was tampering with the contents of the container, by or with the connivance of the applicants - something the applicants deny with equal vehemence.
- [9] On 8 July 2005 the applicants filed an application seeking orders:
- “1. On condition that the applicants make all such payments and do all such things required of them pursuant to the Licence Agreement executed between the parties on 13 February 2002, an order that the respondent take all such steps as are necessary to complete the order for goods placed by the applicants by email on 2 April 2005.
 2. Alternatively an order that the respondent be restrained from terminating the Licence Agreement on the terms set out in the respondent's correspondence of 8 April 2005.
 3. Further or alternatively a declaration that the Licence Agreement may not be terminated by the respondent without cause and other than in accordance with clause 7 of the Licence Agreement.”
- [10] Before the Chief Justice the respondent asserted a right to terminate on 90 days' notice, without cause. The letter from Mr Storay to the respondent advising of the expiry of the relevant intellectual property licences was in the material before His Honour, but no submissions were made in respect of it. The allegation of tampering with the contents of a container load sent in fulfilment of an earlier order was before His Honour; he did not think those allegations bore on the questions before him, saying -
- "There are other matters raised against them [the applicants] as well. Whatever the factual response to those, they are issues which arose some time before April 2005 when the termination was effected and I imagine there would be contentions available that if they gave rise to a right to determine for cause or for breach, they have been waived."
- [11] The Chief Justice was satisfied that there was a serious question to be tried as to the validity of the termination of the agreement. He ordered -
- “1. On condition that the applicants make all such payment and do all such things required of them pursuant to the Licence

Agreement executed between the parties on 13 February 2002, the respondent take all such steps as are necessary to complete the order for goods placed by the applicants by email on 2 April 2005.

2. Further, the respondent be restrained, pending trial, from relying on the terms set out in its correspondence of 8 April 2005 as the foundation of a contention that it has validly terminated the Licence Agreement.
3. Costs reserved.”

[12] By letter dated 26 August 2005 Ms Phasombun advised the applicants' solicitors that there were "great difficulties in complying" with the Chief Justice's order:

“Thank you for your letter re. BAILEY v AUSTEC INNOVATIONS Pty. Ltd. Austec Innovations Pty. Ltd. respects orders of the court and will not ignore them. However, there are great difficulties in complying.

1. Austec Innovations Pty. Ltd. does not have a licence from patent owners to manufacture or import products using their invention. To do so is illegal. Mr Anderson was made aware of this before the court hearing in which he sought orders on behalf of your clients for Austec Innovations Pty. Ltd. to ‘complete the order for goods placed by the applicants by email on 2 April, 2005.’

My affidavit, filed with the court, also points this out and a copy of the letter withdrawing Austec Innovations’ Pty. Ltd. Licence was filed as an exhibit (No. 057) supporting my affidavit. I therefore assume the court was aware of this prior to making the orders.

2. Austec Innovations Pty. Ltd. holds no inventories of products requested by your clients. The court was advised at the hearing that products sold to your clients in the past were only made to order by an independent factory in Thailand. It was also advised that no inventories were held by Austec Innovations Pty. Ltd.
3. To comply with the court orders, Austec Innovations Pty. Ltd. must, therefore, purchase products requested by your clients from the patent owners or their licensee. The patent owners do not sell products. Their licensee has commitments to its own exclusive dealers and is unable to sell products to Austec Innovations Pty. Ltd.

Therefore, Austec Innovations Pty. Ltd. is prevented from complying with orders of the court and selling products to your clients as requested on 2 April 2005, or selling products to any third party.

The company has not been able to trade on behalf of the trust since its licence was cancelled on June 30, 2005.”

- [13] The evidence is not altogether clear, but it seems that since the purported termination of the respondent's licence, the patentees (Mr Storay and Mr Baldini) may have granted distribution rights to Mr Storay's son Benjamin Storay in Tasmania, his brother Mark Storay on the Gold Coast, and to persons in New South Wales and Victoria.
- [14] The respondent has not complied with the Chief Justice's order.
- [15] The applicants now seek orders -

“3. ... that:

- (a) within 7 days the respondent provide the applicants with all necessary information to enable them to pay to the respondent a deposit of 50% of the purchase price (net of GST), upon the order placed by the applicants by email on 2 April 2005 ('the order');
 - (b) within 4 months of the payment of the deposit, and on condition that the applicants make all such further payments and do all things required of them pursuant to the Licence Agreement executed between the parties on 13 February 2002, the first respondent complete, by making delivery to the applicants, of the goods the subject of the order.”
- [16] On the hearing of this application Mr Storay submitted that paragraph 1 of the Chief Justice's order contains two conditions precedent to the respondent's obligation to complete the order, namely -
- (i) payment by the applicants; and
 - (ii) the doing of all things required of them pursuant to the licence agreement.
- [17] Mr Storay raised the allegations of tampering with an earlier order again before me, arguing that the applicants were in breach of the licensing agreement, and that the remedying of that breach was a condition precedent to the respondent's obligation to complete the order placed on 2 April 2005. I reject this argument. When the Chief Justice's order is considered in the context of his reasons, it is clear that it relates only to conditions attaching to that particular order (such as payment of the deposit, etc).
- [18] Mr Storay said that the respondent could only produce one container load of trolleys in a four month period, and that the applicants well knew this. He submitted that on the proper construction of clause 1(b) and (c) of the licence agreement the applicants' orders and the respondent's obligation to supply were so restricted. As counsel for the applicants submitted, there was no evidence that the respondent's capacity was so limited. In the context of the goods being manufactured in Thailand and shipped in standard size shipping containers to Australia, with attendant freight charges (presumably calculated by the size of the containers) being the

responsibility of the respondent, the intention of the parties to be gleaned from the contract was that orders should be sufficient to fill containers. There is no basis for finding that their intention was to restrict the number of container loads per order. Further, as counsel for the applicants submitted, the Chief Justice ordered that the respondent fill the order for three container loads, and there not having been any application to set aside that order, it stands.

- [19] Mr Storay submitted that the respondent's capacity to fill the order had been frustrated by the revocation of its licence from the patentees. But assuming that revocation was valid and effectual, the order of the Chief Justice simply required the respondent to complete the order; it did not require the respondent to manufacture or import. As counsel for the applicants submitted, there are various ways in which that could be done, including placing orders through the distributors who have been appointed since the purported termination of the agreement with the applicants. The respondent may well have some difficulty in sourcing adequate supplies to fill the order: it offered to supply one container load, but that offer was rejected. That is a practical problem for it, and does not relieve it of its obligation under the order.
- [20] Mr Storay submitted that, after the orders of the Chief Justice were made, the second applicant had breached the licence agreement by telling someone who contacted him from outside his market territory about the possible supply of a trolley to contact a sub-licensee in New South Wales, when he should have passed on the potential customer's details to the respondent pursuant to the licence agreement. However, even if this be the case, as I have already said, in my view the order relates only to conditions attaching to the particular order.
- [21] It follows that I consider the applicants should succeed on their application. It is not appropriate in the circumstances to discharge order 1 of the Chief Justice's order; it should stand but be supplemented by further orders giving the respondents some precise directions as to what is required of them. Therefore I propose the following order:

That the orders made by the Chief Justice on 11 August 2005 be varied by the addition of orders 1A and 1B as follows:

1A. That by 2 December 2005 the respondent provide the applicants with all necessary information to enable them to pay to the respondent a deposit of 50% of the purchase price (net of GST) ("the deposit"), upon the order by the applicants by email on 2 April 2005 ("the order");

1B. That within 4 months of the payment of the deposit, the first respondent deliver the goods the subject of the order to the applicants.

- [22] The applicants seek costs, including the costs reserved by the Chief Justice, on the indemnity basis. Their counsel submitted that such an order was warranted because the respondent had contrived to avoid its obligations.
- [23] While I consider that the applicants should have their costs of the application before me, I think the costs reserved by the Chief Justice should remain reserved, because His Honour's order related not only to the fulfilment of the particular order, but also to there being a serious question to be tried about the validity of the purported termination of the agreement.

[24] Such costs would be assessed on the standard basis unless the Court ordered that they be assessed on the indemnity basis: *Uniform Civil Procedure Rules*, rr 703(1), 704(1). In *Di Carlo v Dubois* [2002] QCA 225 White J (with whom the other members of the Court agreed) reviewed the authorities as to the circumstances which might justify an order for indemnity costs. As Woodward J observed in *Fountain Selected Meats (Sales) Pty Ltd v International Produce Merchants Pty Ltd* (1988) 81 ALR 397 at 400 there needs to be some special or unusual feature in the case to justify departure from the ordinary practice. Here the applicants have raised serious allegations of contrivance. In the application filed on 6 October 2005 they asked that the respondent be dealt with for contempt, but they did not pursue that. Mr Storay on behalf of the respondent sought to refute these allegations. However, they were not matters capable of resolution on this interlocutory application. Accordingly, I consider that there should be an order for costs on the standard basis only.

[25] I propose to order –

That the respondent pay the applicants' costs of and incidental to the application filed on 6 October 2005 to be assessed on the standard basis.