

FUJITSU GENERAL NEW ZEALAND LTD v MELCO
NEW ZEALAND LTD [Anton Piller orders]

Court of Appeal (CA295/00)
Richardson P, Gault, McGrath JJ

14 March; 8 May 2002

Anton Piller order — Discharge — Anton Piller orders granted by High Court and executed — Application to discharge Anton Piller orders — Principles applying to such application — Whether there had been material non-disclosure — Whether hearsay nature of evidence constituted material non-disclosure.

The appellant successfully obtained Anton Piller orders against two of its former employees and their new employer. After execution of the orders, the respondents applied for a discharge of the orders, indemnity costs and other incidental relief.

On 19 December 2000, Goddard J discharged the Anton Piller orders, ordered return of all documents seized on execution of those orders, and awarded scheduled costs in favour of the respondents. The basis for the discharge by the High Court was that there had been material non-disclosure.

This was an appeal against the discharge of those orders, and the respondents cross-appealed the High Court's refusal to award indemnity costs. The grounds of appeal were that the hearsay nature of the evidence put forward to justify the granting of the orders was not revealed to the Court at the time.

Held, (1) to justify Anton Piller orders, there must not only be a strong case of serious contravention of a plaintiff's rights, but also a well founded concern that, without the element of surprise inherent in ex parte orders, relevant material will be destroyed or removed. (para 5)

Busby v Thorn EMI Video Programmes Ltd [1984] 1 NZLR 461 applied
Lock International plc v Beswick [1989] 3 All ER 373 referred to

(2) The established principles to be applied upon an application to discharge an executed Anton Piller order are that it should only be entertained before trial if the order has been obtained mala fide, or on material non-disclosure, or if there are other special circumstances which clearly demonstrate the need for immediate relief. (para 7)

D B Baverstock Ltd v Haycock [1986] 1 NZLR 342 applied

(3) The evidence on which the High Court discharged the Anton Piller orders was either expressly acknowledged as hearsay or was obviously so. The evidence later accepted as hearsay but not acknowledged at the time was of limited significance and the non-disclosure of its hearsay nature did not justify discharge of the executed Anton Piller orders. The appeal would therefore be allowed, and the orders discharging the Anton Piller orders would be quashed. (para 27)

Cases referred to

Anton Piller KG v Manufacturing Processes Ltd [1976] Ch 55
Booker McConnell plc v Plascow [1985] RPC 425
Busby v Thorn EMI Video Programmes Ltd [1984] 1 NZLR 461
D B Baverstock Ltd v Haycock [1986] 1 NZLR 342; (1986) 1 PRNZ 139
Lock International plc v Beswick [1989] 3 All ER 373
WEA Records Ltd v Visions Channel 4 Ltd [1983] 2 All ER 589

Reference

McGechan on Procedure para HR331.28

Appeal

This was an appeal against a discharge of an executed Anton Piller order.

J G Miles QC and *C L Elliot* for appellant
G F Arthur and *K McHaffie* for first respondent
J M Ablett-Kerr QC and *C A Reaich* for second and third respondents

The judgment of the Court was delivered by

GAULT J (reserved): [1] In proceedings for misuse of confidential information the plaintiff, Fujitsu General New Zealand Ltd, obtained Anton Piller orders against two former employees, Messrs Mihu and Rochester and their new employer, Melco NZ Ltd. After execution of the orders, the defendants, the present respondents, applied for discharge of the orders, indemnity costs and other incidental relief. In a judgment delivered in the High Court at Wellington on 19 December 2000 Goddard J discharged the Anton Piller orders, ordered return of all documents seized on execution of those orders and awarded scheduled costs in favour of the respondents.

[2] The appellant Fujitsu has appealed against the discharge of the Anton Piller orders and the respondents have cross-appealed against the refusal of the Judge to award indemnity costs.

[3] Anton Piller orders as they have become known (*Anton Piller KG v Manufacturing Processes Ltd* [1976] Ch 55) are highly intrusive and are granted ex parte. They authorise entry on premises, search, inspection and seizure of documents. They generally incorporate injunctions and require immediate discovery and cooperation of a party against whom the element of surprise is employed. In New Zealand, the grant of such orders by the judicial branch of Government does not appear to have been tested against the rights and freedoms assured by the New Zealand Bill of Rights Act 1990. That aside, the Courts, particularly in England, have been careful to incorporate such safeguards as are consistent with the effectiveness of the orders: see the practice direction and annexed draft orders reproduced at 1994 NLJ 1134.

[4] There can be little doubt that circumstances can arise in which, without the availability of Anton Piller orders, unlawful and damaging conduct can go unremedied. Prior notice would enable those who profit from easily concealed illicit activities to remove or destroy incriminating material and so escape lawful redress.

[5] But, as the cases make clear, such orders must be justified. There must be shown not only a strong case of serious contravention of a plaintiff's rights, but also a well founded concern that, without the element of surprise inherent in *ex parte* orders, relevant material will be destroyed or removed: *Busby v Thorn EMI Video Programmes Ltd* [1984] 1 NZLR 461, 465. Such orders are not intended simply for tactical use in commercial warfare between competitors. It is appropriate to emphasise what Hoffman J said under the heading "The Anton Piller jurisdiction" in his judgment in *Lock International plc v Beswick* [1989] 3 All ER 373, 382 and in particular (p 384):

Even in cases in which the plaintiff has strong evidence that an employee has taken what is undoubtedly specific confidential information, such as a list of customers, the court must employ a graduated response. To borrow a useful concept from the jurisprudence of the European Community, there must be proportionality between the perceived threat to the plaintiff's rights and the remedy granted. The fact that there is overwhelming evidence that the defendant has behaved wrongfully in his commercial relationships does not necessarily justify an Anton Piller order. People whose commercial morality allows them to take a list of the customers with whom they were in contact while employed will not necessarily disobey an order of the court requiring them to deliver it up. Not everyone who is misusing confidential information will destroy documents in the face of a court order requiring him to preserve them.

[6] In the present appeal we are not concerned with the grant of the orders in question. They were granted by Goddard J and have been fully executed. Our concern is with the application by the respondents for discharge of the orders. Since they have been executed, and are effectively spent, the only purpose in seeking discharge is to claim under the undertaking as to damages necessarily given upon the granting of the orders. Goddard J ordered discharge of the orders but adjourned *sine die* the associated application for an inquiry as to damages because she considered that premature and that it should wait until all substantive issues are determined.

[7] Counsel for the parties agreed (as the Judge found) that the applicable principle is well established. It is concisely stated in the judgment of Henry J in *D B Baverstock Ltd v Haycock* [1986] 1 NZLR 342; (1986) 1 PRNZ 139, at p 345; p 142:

In my view the principle to be applied in respect of an application to discharge an executed Anton Piller order is that it should only be entertained prior to trial if the order has been obtained *mala fide*, or on material non-disclosure, or if there are other special circumstances which clearly demonstrate the need for immediate relief.

See also Robert Dean, *The Law of Trade Secrets* 10.81-10.21.

[8] Much of the material in the affidavits, and in the written argument of counsel was directed more to whether the Anton Piller orders should have been made and to whether, in the light of the "total picture" now available such orders could be justified. Neither represents the correct approach. The "total picture" will emerge only at trial and an application to discharge an executed Anton Piller order does not present an occasion for the parties to contest, by affidavit, the very issues that are for trial. In *WEA Records Ltd v Visions Channel 4 Ltd* [1983] 2 All ER 589, 594 Donaldson MR, with whom the other members of the Court agreed, said:

In the instant case the Anton Piller order is spent in the sense that it has been executed. However, the defendants seek to go back to the beginning of the action saying that, regardless of whether the fruits of the order are such as to show that it was abundantly justified, the judge had insufficient material to justify his action at the ex parte stage. They therefore invite us to set the ex parte order aside and to order the return of the affidavits to the two personal defendants and the seized material to the defendants' solicitors.

I regard this as wholly absurd. The courts are concerned with the administration of justice, not with playing a game of snakes and ladders. If it were now clear that the defendants had suffered any injustice by the making of the order, taking account of all relevant evidence including the affidavits of the personal defendants and the fruits of the search, the defendants would have their remedy in the counter-undertaking as to damages. But this is a matter to be investigated by the High Court judge who is seised of the matter, and only when he has reached a decision can this court be concerned.

See also *Booker McConnell plc v Plascow* [1985] RPC 425, 435.

[9] In the present case, Goddard J determined that the orders should be discharged on the ground of material non-disclosure. She stated expressly that she did not find mala fides. There had been argument before her that there were "other special circumstances" but she found it unnecessary to deal with them. They were not argued in this Court.

[10] The Judge referred to one particular aspect of non-disclosure that satisfied her that she should adopt the rare course of discharging the executed orders prior to trial. The argument eventually focused on that. There was, however, a second factor, referred to by the Judge as a "critical factor" which "did . . . have a considerable impact on the Anton Piller application" in respect of which she said "I am clear that if the correct picture had been before the Court the orders would not have been made ex parte". This second factor can be dealt with briefly.

[11] In an affidavit, made in different proceedings, an officer of the respondent company, Melco, had referred to an Australian company (Mitsubishi) holding a majority shareholding in Melco. In an affidavit in support of the Anton Piller application this was contrasted with information disclosed on Melco's website and it was contended that the earlier affidavit had misled the Court and given a wrong picture of Melco's financial structure. It subsequently emerged that it was Melco's website that was incorrect, having been prematurely updated to reflect changes.

[12] When the Anton Piller orders were made they provided, as is usual, the following:

Before permitting entry to the premises by any person other than the Supervising Lawyer, the Defendant or other person appearing to be in control of the premises may:

1. seek legal advice and apply to the Court to vary or discharge this Order, provided he does so at once; and
2. gather together any documents he believes may be privileged and hand them to the Supervising Lawyer for the Supervising Lawyer to assess whether they are privileged as claimed. If the Supervising Lawyer concludes that any of the said documents may be privileged documents or if there is any doubt as to their status, the Supervising Lawyer shall exclude them from the search and shall retain the documents of doubtful status in his possession pending further order of the Court.

While this is being done, the Defendant may refuse entry to the premises by any other person, and may refuse to permit the search to begin, for a short time (not to exceed two hours, unless the Supervising Lawyer agrees to a longer period). If the Defendant wishes to

take legal advice and gathers documents as permitted, he shall first inform the Supervising Lawyer and shall keep him informed of the steps being taken.

[13] Taking advantage of the rights conferred, within the 2-hour period, counsel for Melco attended upon the Judge. His memorandum summarises what occurred as follows:

I advised Her Honour that the position of my client was that the statement that Mr Lilley had misled the Court was wrong and that Mr Lilley's 'Comfort' affidavit was correct. Therefore there was no accurate information before the Court to justify a conclusion Melco was managed by the sort of people that would ignore a Court Order and destroy documents.

My initial request was that Her Honour suspend the execution of the Anton Piller Order until early the following week. I believe I made that proposal to allow time for an application to discharge or vary the Anton Piller Order. As an alternative I suggested that the Order should be varied so that rather than Fujitsu's representatives conducting the search, the Directors of Melco take responsibility for the search.

After hearing from Mr Wigley, Her Honour declined to vary the Anton Piller Order except that the search was delayed until after 5.30 pm and the confidentiality obligations were varied to the extent of allowing an agreed statement to be made to Melco staff.

[14] In the circumstances, while it may be strictly correct that the claim that the Court had been misled was influential in the decision to grant the orders, when the inaccuracy was pointed out, before execution, the Judge was not moved to suspend or vary the orders made and which she would have known were about to be executed. Accordingly, we are not persuaded this should carry weight as material non-disclosure supporting discharge, after execution of the orders.

[15] We turn then to the principal aspect of non-disclosure relied on by the Judge. It is referred to in the judgment as the "hitherto unrevealed and now exposed hearsay nature of the 'evidence' relating to the 13 customers". It was in respect of the hearsay nature of the evidence not its content that the Court was found to have been misled. It is important to bear that in mind because in argument, and in some passages in the judgment under appeal, there has been a tendency to refer to evidence filed by the respondents in support of the application to discharge which seeks to give the Court the true picture so as to bolster claims that there was less than full candid disclosure. Such evidence, so far as it seeks to impugn the content of the evidence, goes to the issues to be resolved at trial and not to the hearsay nature of the evidence presented by Fujitsu.

[16] In support of the appeal Mr Miles QC strongly challenged that the hearsay nature of the evidence was unrevealed. The relevant affidavit is that of Mr Naylor, general manager of Fujitsu at the time the original orders were sought. A summary of the salient features of this affidavit is set out in the judgment under appeal. It appears to have been taken from submissions of counsel. As it refers to the "13 customers" this summary states:

Mr Naylor also said that Mr Rochester had contacted a sizeable number of Fujitsu's customers within the first six months of his move to Melco, with particular emphasis on the customers who purchase larger volumes. This evidence was particularly significant. He provided detailed examples of 13 such customers: Gokal Amco Ltd of Fiji; Pacific Retail Group; Retravisin; Electrochill; Westco; Climatech; Controlled Environment Systems; Kelly Air Conditioning; Beattie Air-Conditioning; Smith City; Central Refrigeration; Murder Refrigeration; and McGregor & White. Mr Naylor described how there had been

movement to Melco by a number of these key account customers which he deposed was 'unheard of without some form of motivating or influencing factor'.

Mr Naylor then went on to depose that:

'The specific targeting of key Fujitsu customers using inside information appears to be continuing and unless stopped is likely to have a potentially multi-million dollar effect on Fujitsu's business. The movement of Mr Mihi to Melco, with now fresh key account information for the Northern region is of significant concern.'

A further and significant dimension was a 'coincidental' upturn in Melco's relative share of the air conditioning market during the same period. Mr Naylor said that Melco was known to have experienced recent difficult trading activities and to have run at a loss; its distribution rights had been limited with Mitsubishi pulling out of the consumer electronics market. Further its shareholding position seemed unclear and its major shareholder was thought to be exiting. The most reliable statistical data on the air conditioning market (Informark) revealed, surprisingly, that significant growth had however occurred in Melco's market share for the period November 1999 to June 2000. Also significant was a corresponding and commensurate decline in Fujitsu's market share for the same period. Mr Naylor said:

'There is thus close correlation between the decline in market share experiences by Fujitsu and increase in market share by Melco. I must stress that I cannot be absolutely certain that I have correctly identified Melco in the Informark statistics, however, from experience in tracking these I am of the opinion I am considerably more likely than not to be correct.

'While there could be other factors contributing to this movement (including of course legitimate competition by Melco including Mr Rochester and (potentially) Mr Mihi) I believe that movement is so marked that much derives from the wrongful use of Fujitsu's information.'

[17] As an aside, we mention that the qualifications in the two paragraphs at the end presumably were seen by the Judge as sufficient answer to criticism that Mr Naylor had misleadingly failed to advance alternative interpretations of the Informark statistics, or alternative explanations for the increase in Melco's market share — if there had been any obligation to do so (no authority was cited).

[18] Mr Miles first pointed out that Mr Naylor, at the beginning of his affidavit, gave his employment background making quite clear that he was employed by Fujitsu only after Mr Rochester had left. Any statements relating to Mr Rochester's period at Fujitsu were therefore obviously hearsay.

[19] Mr Miles then took us through that part of the affidavit directed to the 13 customers. This begins as follows:

In an undated letter sent by Mr Rochester to my superior, the Managing Director of Fujitsu Australia, Mr Hirai, (received by Fujitsu on 4 July 2000) Mr Rochester stated in reply to allegations that he had taken Fujitsu's confidential customer information:

'I have had no requirement to take any such information when I left; in fact I visited very few customers of Fujitsu in the first six months.'

The letter was headed 'without prejudice'. Mr Rochester's statement is not consistent with the evidence that I am aware of. In that regard, I understand Mr Rochester has contacted a sizeable number of Fujitsu's customers within the first six months of his shift to Melco, with particular emphasis on the customers who purchase larger volumes.

Included among the Fujitsu customers that I am aware Mr Rochester has contacted are:

[20] We were told that there is no longer any issue concerning the without prejudice nature of Mr Rochester's letter.

[21] It is certainly clear from Mr Naylor's introductory comments on the point that, so far as he asserted that Mr Rochester had visited Fujitsu's customers, he was not giving direct evidence.

[22] The affidavit goes on to state under the name of each of the 13 customers the relationship with Fujitsu and events since Mr Rochester's departure. The statements made can fairly be considered cumulatively and in light of the introductory paragraph. They are replete with expressions such as "I understand", "apparently", "I am aware". With reference to the first customer the deponent exhibits a copy of a faxed letter. That is hearsay in respect of the writer's statements but it is obviously so.

[23] Referring to the second customer, Mr Naylor refers to having been told directly by the buyer. Referring to the third he states that their buyers have spoken to him. Statements about the fourth and eighth customers also are said to be sourced with buyers.

[24] There are a number of statements not obviously hearsay. They are generally to the effect that the particular customers have dropped Fujitsu as a supplier or have begun to purchase from Melco. It can be noted that there has been no suggestion that the statements that the customers now stock products from Melco are inaccurate.

[25] We were invited to consider evidence from the customers. It was submitted that such evidence should have been sought by Fujitsu before applying for the original orders. We do not accept, however, that if this was an appropriate case for Anton Piller orders, inquiries from the proposed defendant's customers would have been practicable.

[26] Mr Naylor gave what the Judge referred to, somewhat critically, as his "version" of events. But that would not have contributed to the finding of non-disclosure of the hearsay nature of his evidence. To the extent that his affidavit included statements that were unacknowledged hearsay we are unable to accept that lack of acknowledgement alone as material. We do not see that it is of such significance that if the particular statements had been made with direct knowledge the original orders would have been justified but as hearsay they would not.

[27] Accordingly we are persuaded that to a large extent the evidence in question was either expressly acknowledged as hearsay or was obviously so. The evidence later accepted as hearsay but not acknowledged at the time was of limited significance and the non-disclosure of its hearsay nature did not justify discharge of the executed orders before trial.

[28] The Judge may rightly have had reservations as to whether the orders should have been made now that more evidence is available. But that is yet to be tested and the issue on an application for discharge is different.

[29] The order for discharge is quashed. The application for discharge is adjourned for consideration by the High Court at trial or otherwise as may be directed by that Court. We do not understand there is a need for any consequential orders relating to documents discovered in the course of execution of the original orders.

[30] We do not need to deal with the cross-appeal on costs. However, we have considered the question of costs. Although the appellant has succeeded in this Court in having the order for discharge quashed, the practical consequences prior to trial are of little significance and we consider costs in this Court should lie where they fall. In all other respects costs are reserved until after trial.

Appeal allowed

Reported by Balthazar Matheson