

IN THE COURT OF APPEAL OF NEW ZEALAND

I TE KŌTI PĪRA O AOTEAROA

**CA208/2018
[2018] NZCA 390**

BETWEEN

MERISANT COMPANY,
INCORPORATED
First Appellant

MERISANT AUSTRALIA PTY LIMITED
Second Appellant

MERISANT COMPANY 2 SARL
Third Appellant

NEW ZEALAND SUGAR COMPANY
LIMITED
Fourth Appellant

AND

FLUJO SANGUINEO HOLDINGS PTY
LIMITED
Respondent

Hearing: 25 July 2018

Court: Asher, Courtney and Moore JJ

Counsel: C L Elliott QC and J B Rutter for First, Second and Fourth
Appellants
D L Marriott for Respondent

Judgment: 26 September 2018 at 11 am

JUDGMENT OF THE COURT

A The appeal is dismissed.

B The appellants are jointly and severally liable to pay the respondent one set of costs for a standard appeal on a band A basis and usual disbursements.

REASONS OF THE COURT

(Given by Asher J)

Introduction

[1] This is an appeal against a decision of Fitzgerald J refusing to stay this proceeding because its continuation was an abuse of process.¹ The proceedings have been filed by Flujo Sanguineo Holdings Pty Ltd (Flujo2) against the four respondents (Merisant), alleging passing off, trademark infringement, and breaches of the Fair Trading Act 1986 in the packaging of stevia-based sweetener products.

[2] This is the second proceeding where these allegations have been made against Merisant (the second proceedings). Prior to the commencement of the present proceedings, a different company to Flujo2, Flujo Holdings Pty Ltd (Flujo1), brought proceedings that were substantially the same against Merisant. On 28 April 2017, some days before trial, an adjournment was sought by Flujo1. The application was refused. Flujo1 then within one hour discontinued the proceedings (the first proceeding).

[3] Prior to the discontinuance Flujo1 had executed a deed transferring the intellectual property that it relied on in the proceedings together with all intellectual property owned by Flujo1 to Flujo2 on 27 March 2017. That deed also assigned Flujo1's rights and remedies in relation to any past, present and future infringements of the assigned intellectual property. Flujo2 is a company with the same directors and shareholders as Flujo1. Both are Australian companies.

[4] After the discontinuance, Flujo2 as assignor commenced the current proceedings. As we have indicated, the Flujo2 proceedings had the same Merisant defendants as in the Flujo1 proceedings. Essentially the same allegations were made. Following filing of the second proceedings the Court heard an application of Merisant to vary the discontinuance, and an application for increased or indemnity costs in the first proceedings. The High Court declined to vary the notice of discontinuance, but awarded significant costs amounting to a total of \$103,978.25. Flujo1 appealed

¹ *Flujo Sanguineo Holdings Pty Ltd v Merisant Company Inc* [2018] NZHC 54, [2018] NZAR 189.

against the award, and a decision was delivered on 29 June 2018 dismissing the appeal.² Flujo1 has still not paid any of the costs.

[5] In late 2017 Merisant commenced enforcement proceedings against Flujo1 in Australia in relation to these unpaid costs. Enforcement has been unsuccessful in Australia to date, we are told because of a requirement for a certified copy of the judgment that is sought to be enforced. Merisant was not able to provide such a certified copy while the first proceedings were under appeal. Despite Flujo1's non-payment, Flujo2 wishes to proceed with all usual speed through the completion of interlocutories on the second proceedings, and to a trial.

[6] On 14 August 2017 Merisant filed an application to dismiss or stay the proceedings. The application to dismiss was based on Flujo2 having no right to bring the proceedings because the assignment was void. In her judgment delivered on 5 February 2018 Fitzgerald J dismissed that aspect of the application.³ That part of her judgment has not been appealed. She then went on to deal with the application for a stay. This was based on the non-payment of costs by Flujo1. She also dismissed the application to stay.

[7] In her judgment she found that Merisant in seeking the stay could not rely on r 15.24 of the High Court Rules 2016 (the rules), but nevertheless the Court had inherent jurisdiction to grant a stay to prevent abuse of its processes. She did not consider that the assignment of the cause of action was a device to get around the obligation in r 15.24 to pay costs before proceedings are re-commenced. She did not consider that any other High Court rule was breached in issuing the proceedings.

[8] She then went on to determine whether there was an abuse in continuing the second proceedings without paying the costs of the first proceedings. She concluded:⁴

In circumstances where I have concluded the assignment from Flujo Holdings to Flujo Sanguineo was not invalid or otherwise unlawful, I do not consider Flujo Sanguineo's continuance of these proceedings, solely on the basis that a related entity has not yet paid costs ordered in the First Proceedings, is itself an abuse of process.

² *Flujo Holdings Pty Ltd v Merisant Company Inc* [2018] NZCA 226.

³ *Flujo Sanguineo Holdings Pty Ltd*, above n 1.

⁴ At [59].

[9] This is the aspect of the decision which is now challenged by Merisant. The Judge went on to note that the costs order of the first proceedings continued to stand and Flujo1 remained liable to pay it.⁵ She observed that the non-payment could be a factor in a security for costs application in the second proceedings. She dismissed the application.

[10] Mr Marriott for Flujo 2 objected to the appellants' submissions on the grounds that the appellants' arguments bear little or no relationship to the grounds upon which their application to dismiss or stay the second proceedings was based on in the High Court. He submitted that there had been change of emphasis in focusing on the ongoing conduct of the proceedings, rather than the original bringing of the proceedings. We are unable to accept this submission. Objection to the pursuit of the proceedings was clearly signalled in the original application for stay, and in the submissions both in the High Court and in this Court.

The issue

[11] Mr Elliott submitted that allowing Flujo2 to continue with the second proceedings without costs being paid by Flujo1 after that proceeding would be to avoid the purpose if not the words of r 15.24. Moreover, this would defeat the over-arching objective of the rules which is to secure the just, speedy and inexpensive determination of the proceeding. He submitted that the Judge should have stepped back and viewed the situation as a whole.

[12] The Judge had observed that to resort to the Court's inherent jurisdiction in any case where second proceedings had been commenced before a costs award in the first proceeding "... would, without more, run counter to the plain wording of r 15.24".⁶ Mr Elliott was critical of the "without more" reasoning saying that there could be an abuse of process even if it had been commenced in accordance with r 15.24, and submitted that in any event the extent and failure by the Flujo parties to pay the costs was something that created obvious unfairness and prejudice, and constituted an abuse of process.

⁵ At [60].

⁶ At [58].

The rules

[13] Rule 15.24 restricts the commencement of subsequent proceedings in the event of the non-payment of costs on a discontinuance:

15.24 Restriction on subsequent proceedings

A plaintiff who discontinues a proceeding (**proceeding A**) against a defendant may not commence another proceeding (**proceeding B**) against the defendant if proceeding B arises out of facts that are the same or substantially the same as those relating to proceeding A, unless the plaintiff has paid any costs ordered to be paid to the defendant under rule 15.23 relating to proceeding A.

[14] Mr Elliott QC for Merisant did not seek to argue before us that r 15.24 applied. He was right not to do so as the party that ultimately did commence the proceedings was a different party to Flujo1, being Flujo2. Further, in the present case neither Flujo1 nor Flujo2 was subject to any costs order at all when the current proceedings were commenced on 9 June 2017. Indeed, the costs order was not made until approximately a month later on 18 July 2017.⁷ Rule 15.24 does not apply.

[15] However the fact that r 15.24 does not apply is not an end to the matter. Mr Elliott argues that Flujo2, in continuing with the proceeding while Flujo1 has not paid costs, is abusing the process of the Court.

[16] In relation to this appeal, the Court has an express power to stay all or part of a proceeding under r 15.1(3). This rule does not affect the Court's inherent jurisdiction.⁸ Although this rule was not referred to in the High Court judgment or submissions it applies when, under r 15.1(1)(d) there is "... otherwise an abuse of the process of the court". The issue in this appeal should be considered in the context of that rule. There is no definition of abuse of process in r 15.1.

[17] We have considered, but rejected, the possible application of r 1.6 which deals with cases for which there is no specific provision in the rules:

⁷ In *McKeown Group Ltd v Russell* HC Timaru CIV-2008-476-530, 16 March 2009, French J cited this rule in dismissing a r 15.24 strike out application, noting that there had never been any costs order made in the earlier proceedings.

⁸ High Court Rules 2016, 15.1(4).

1.6 Cases not provided for

- (1) If any case arises for which no form of procedure is prescribed by any Act or rules or regulations or by these rules, the court must dispose of the case as nearly as may be practicable in accordance with the provisions of these rules affecting any similar case.
- (2) If there are no such rules, it must be disposed of in the manner that the court thinks is best calculated to promote the objective of these rules (see rule 1.2).

[18] This rule also reflects the Court's inherent jurisdiction to control its own procedure. Where there is no applicable rule the Court must dispose of the case as near as may be practicable in accordance with analogous rules. In r 1.6(2) it is provided that if no such rules can be applied, the case must be disposed of to promote the objective of the rules, which is to secure the just, speedy and inexpensive determination of the interlocutory application or proceeding.⁹

[19] We must examine whether the Court should approach the issue of stay for non-payment of costs in the first proceedings by way of an analogy to r 15.24, and whether this is a similar case under r 1.6. In our view r 1.6 is of no assistance. The situation that has arisen involves significantly different facts from those referred to in r 15.24. There is not the same party, and there has not been a filing after a costs order has been made. There is no analogy.

[20] While r 15.24 does not apply, this does not limit the Court's powers. Plainly the fact that r 15.24 extends only to the discontinuing party starting again does not preclude a more general consideration of abuse of process.

Abuse of process

[21] An abuse of process can arise from a breach of the rules, or from conduct not the subject of any rule of Court. Not every breach of a rule is an abuse of process, and actions which are not in breach of any rule can be an abuse of process. Somers J stated in *New Zealand Social Credit Political League Inc v O'Brien*:¹⁰

⁹ Rule 1.2.

¹⁰ *New Zealand Social Credit Political League Inc v O'Brien* [1984] 1 NZLR 84 at 95.

It is not in my view material that the League and Mr Riddoch have not pleaded abuse of process save in a limited way. The Court in this field is concerned with proceedings which are ex facie lawful, that is to say are within the rules about procedure. But to prevent those rules being used oppressively the Court will intervene proprio motu [of its own initiative] if necessary. It recognises that the literal application of the law itself can be a tyranny.

[22] The jurisdiction of the Court to intervene for abuse of process stems from the Court's obligation to ensure that its procedures are used fairly, and not in an oppressive or unjust manner. Lord Diplock offered this often quoted explanation in *Hunter v Chief Constable of West Midlands Police*:¹¹

My Lords, this is a case about abuse of the process of the High Court. It concerns the inherent power which any court of justice must possess to prevent misuse of its procedure in a way which, although not inconsistent with the literal application of its procedural rules, would nevertheless be manifestly unfair to a party to litigation before it, or would otherwise bring the administration of justice into disrepute among right-thinking people.

[23] In *Reid v New Zealand Trotting Conference* Richardson J who quoted Lord Diplock's dicta stated:¹²

The public interest in the due administration of justice necessarily extends to ensuring that the Courts' processes are fairly used and that they do not lend themselves to oppression and injustice.

[24] In *Waterhouse v Contractors Bonding Ltd*, the Supreme Court recorded with approval extracts from the Australian High Court decision of *Jeffery & Katauskas Pty Ltd v SST Consulting Pty Ltd*, where it was stated that abuse of process extends to proceedings that are "seriously and unfairly burdensome, prejudicial or damaging" or "productive of serious and unjustified trouble and harassment".¹³ The onus on a party alleging abuse of process by bringing a proceeding for an improper purpose has been described as "a heavy one" and one to be exercised only in "the most exceptional circumstances".¹⁴

¹¹ *Hunter v Chief Constable of West Midlands Police* [1981] 3 WLR 906 (HL) at 909.

¹² *Reid v New Zealand Trotting Conference* [1984] 1 NZLR 8 at 9.

¹³ *Waterhouse v Contractors Bonding Ltd* [2013] NZSC 89, [2014] 1 NZLR 91 at [32], quoting from *Jeffery & Katauskas Pty Ltd v SST Consulting Pty Ltd* [2009] HCA 43, (2009) 239 CLR 75 at [28].

¹⁴ *Williams v Spautz* (1992) 174 CLR 509 at 528 and 536; and *Goldsmith v Sperrings Ltd* [1977] 1 WLR 478 (HL) at 498.

[25] It is useful to compare the present circumstances with other cases where it has been held that there was an abuse of process. In *Hunter v Chief Constable of West Midlands Police* there were civil actions taken by defendants to earlier criminal proceedings, which were seen to be a collateral attack on the previous decision of a criminal court. That was held to be an abuse of process. In *Reid v New Zealand Trotting Conference* there were significant overall delays that had taken place that led to Limitation Act issues and there were deficiencies in the pleadings. In particular there was an absence of particulars and relevant witnesses had died. The issue of the proceeding was an abuse of process. So also, the re-litigation of an issue already determined has been frequently held to be abuse of process.¹⁵ Abuse of process may also include issuing proceedings with an improper motive or in an attempt to obtain a collateral advantage beyond that legitimately gained from a court proceeding.¹⁶

[26] All these cases involve the immediately recognisable and serious misuse of Court procedures.

[27] It is clear, therefore, that just as it is not every breach of the rules that would be regarded as an abuse of process, similarly not every action by a party which results in some form of unfairness to another party will be an abuse of process.¹⁷ The conduct must be “manifestly unfair”.¹⁸ There must be something more than the breach of a rule or an action, which might offend a general sense of fair play. The action must be an abuse of the Court’s process with all the seriousness that the word “abuse” entails. Some action involving serious unfairness is required, where the Court perceives it has a duty to intervene and protect the Court process. It must conclude that it is obliged to intervene to stop the Court’s process being used in the way proposed by the offending party.

Application to facts

[28] From a commercial perspective the frustration of Merisant is understandable. They have to fund their defence, but are out of pocket on a costs award in what they

¹⁵ *McGougan v DePuy International Ltd* [2018] NZCA 91, [2018] 2 NZLR 916 at [100].

¹⁶ *Goldsmith*, above n 14.

¹⁷ *Jeffery & Katauskas Pty Ltd*, above n 13, at [28]; and *Waterhouse*, above n 13, at [32].

¹⁸ *Hunter*, above n 11, at 729.

see as the same case. There is an element of unfairness in that. But is it an abuse of process for a proceeding to continue when there is an assignment of the claim to a new party and outstanding costs owed by the assignor?

[29] There is no doubt that Flujo1 and Flujo2 are closely related companies. Searches produced to the Court show that a Mr Mark Hanna and Mr Samuel Tew are the sole directors and shareholders of both companies, although in different proportions. They are Australian companies. It was not submitted to us that they would fall within the definition of a related company under s 2(3) of the Companies Act 1993.

[30] Mr Hanna is the managing director of Flujo2. He deposed that the assignment from Flujo1 to Flujo2 was carried out for completely legitimate commercial reasons, relating to a restructure of the Flujo group of businesses. It had been implemented some 18 months prior to the discontinuance. He stated that the assignment was not related in any way to the dispute with Merisant, and the reason it was delayed from the time of the restructure was that it was a low priority. He stated that the option of discontinuing the proceedings was not drawn to his attention until the adjournment issue became pressing on 27 April 2017. He also deposed that the last minute adjournment was sought because Flujo1's barrister had withdrawn due to a dispute about fees.

[31] In finding that the Court's process had not been abused by the adjournment application and discontinuance, Fitzgerald J declined to find that the assignment was invalid or otherwise unlawful.¹⁹ It is to be noted that the new proceedings were not filed until 9 June 2017, over two months after the assignment and over a month after the discontinuance and adjournment of 28 April 2017. These findings are not challenged. Merisant's real complaint of unfairness is that if the corporate veil is lifted, the directors and shareholders of Flujo1 are able to continue the same proceedings through Flujo2, while thumbing their noses at the Flujo1 costs order.

[32] However the two Flujo companies must be regarded as two legally separate persons, and from all appearances on the file to date Flujo2 is a genuine plaintiff

¹⁹ *Flujo Sanguineo Holdings Pty Ltd*, above n 1, at [59].

seeking a trial as soon as possible. There is nothing to suggest that Flujo2 set out through the assignment and discontinuance to take advantage of the procedures of the Court to defeat the costs award against Flujo1. Mr Elliott made no submissions to the contrary.

[33] If the Court had been satisfied that the assignment had been entered into with the deliberate purpose of defeating the costs order, there might well have been an issue of abuse of process. However that is not the case here. There was no finding that the assignment was made for anything other than a legitimate commercial purpose,²⁰ and as we have said, this was not challenged in this appeal. The only wrongdoing by Flujo2 that can be alleged is the continuing of the second proceedings while costs on the first are unpaid.

[34] While Merisant nurses a feeling of unfairness it is not without remedy. Merisant should be able to seal its costs judgment against Flujo1 and enforce it in Australia. It has not been demonstrated that Flujo1 is unable to meet the award of costs. In other words Merisant has orthodox procedural options available to it through which it should be ultimately able to get payment of the costs. Any unfairness is therefore likely to be a matter of delay in obtaining a sum of money which although considerable is far from being of the most significant order between commercial parties. There is no evidence that the delay in payment is causing any particular harm to Merisant.

Conclusion

[35] We conclude that there is no abuse of process in Flujo 2 continuing its proceedings. The filing of the proceedings is to pursue what appears to be a genuine grievance, and the actual processes of the Court in relation to the second proceedings are not being misused in any way. We do not see the fact that there has been an earlier proceeding by an assignor relating to the same grievance in which there are outstanding costs creates the necessary element of serious unfairness to warrant intervention. In our view the Court's jurisdiction to prevent an abuse of process would be stretched beyond its natural boundary if it was made to cover the present quite

²⁰ See the discussion at [18]–[28] of this judgment.

unusual circumstances. We cannot see why, as a matter of duty to protect the fairness of its processes, the High Court was obliged to issue a stay.

[36] This conclusion does not defeat the just, speedy and inexpensive determination of the proceeding. The proceeding is properly brought and is being properly pursued. Indeed this application and appeal appears to have delayed it, on the initiative of Merisant. The costs ordered in the first proceedings can be enforced, and delay in payment will be highly relevant to the making of a security for costs order to protect Merisant for its costs in this proceeding. In the meantime, the ongoing conduct of the proceedings is not outrageous or seriously unjust. Like Fitzgerald J we conclude that there is no abuse of process warranting the Court's intervention.

Result

[37] The appeal is dismissed.

[38] Costs follow the event. The appellants are jointly and severally liable to pay the respondent one set of costs for a standard appeal on a band A basis and usual disbursements.

Solicitors:

Kensington Swan, Auckland for First, Second and Fourth Appellants
Hudson Gavin Martin, Auckland for Respondent