

PATIENCE & NICHOLSON (NZ) LTD v CYCLONE
HARDWARE PTY LTD

High Court, Auckland (CP685/98)
Glazebrook J

4 September; 8 September 2000

Appeals from High Court — Stay — Whether sufficient to show high probability appeal rights would be rendered nugatory — Weight of public interest considerations — Court of Appeal (Civil) Rules 1997, r 9.

The substantive proceeding concerned the use of trademarks. The Court found against the defendant, who appealed to the Court of Appeal. The plaintiff then applied for a stay of the High Court judgment pending the appeal.

[Note: Consistent with the format of the issued judgment, paragraph numbers rather than line numbers are used in this report.]

Held, (1) the evidence showed a very high likelihood that in a practical commercial sense the defendant's appeal rights would be rendered nugatory without a stay. It was not necessary to show in absolute terms that lack of a stay would render the appeal nugatory. It also weighed in the plaintiff's favour that this proceeding related to future use of the name and not to compensation for past wrongs, and damages would not therefore be available as an effective remedy if a stay were not granted. (p 536, paras 10, 11)

(2) The defendant was able to point to the substantive judgment where it was found as a fact that both long- and short-term damage was being suffered by the plaintiff and that damages would not be an adequate remedy. It was not necessary for the defendant to show that it would be injuriously affected by the stay itself. (p 537, para 14)

(3) The public interest was a factor to be taken into account but did not necessarily take precedence at the expense of rendering appeal rights nugatory. Its significance would vary from case to case. (p 538, para 19)

(4) The short-term harm for the plaintiff appeared far more serious than for the defendant in this case and the balance of convenience favoured a stay. There had been no conduct on the part of the plaintiff which would disqualify it from a stay. Taking all these factors into account, a stay would be granted on condition that the appeal be prosecuted with due diligence. (p 538, para 24)

Cases referred to

Australian Surf Life Saver Pty Ltd v S & I Publishing Pty Ltd (1998) 43 IPR 592
Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd (1999)
13 PRNZ 48

Farmers Meat Export Ltd v Waitaki (NZ) Refrigerating Ltd 6/12/85, Hardie Boys J, HC Christchurch A29/81

Monsanto Co v Stauffer Chemical Co (No 2) (1984) 1 NZIPR 540

Philip Morris (NZ) Ltd v Liggett & Myers Tobacco Co (NZ) Ltd [1977] 2 NZLR 41 (CA)

References

McGechan on Procedure para CA9.04

Application

This was an application for a stay of a judgment pending appeal to the Court of Appeal.

C L Elliott and A E McDonald for plaintiff

D J Chisholm and S Wheeldon for defendants

GLAZEBROOK J (reserved): [1] This is an application under r 9 of the Court of Appeal (Civil) Rules 1997 for stay of judgments delivered in this proceeding pending an appeal to the Court of Appeal.

The law

[2] The principles upon which a stay pending an appeal should be granted are not in dispute. Two competing rights must be balanced by the Court — the first is that the successful litigant should not be deprived of the fruits of litigation in the first instance. On the other hand the appellant should not pre-emptively be deprived of the fruits of a successful appeal.

[3] The principle is that there is a judgment that is determinative of the rights of the parties unless the Court of Appeal decides otherwise. It is thus not merely a question of overall fairness. As was stressed by Hardie Boys J in *Farmers Meat Export Ltd v Waitaki (NZ) Refrigerating Ltd* 6/12/85, Hardie Boys J, HC Christchurch A29/81 (at p 2):

“The Court must be careful in my opinion not to extend the grounds too widely and to endeavour to give effect to its view of what might be fair, because it is not a question of fairness but of rights.”

It is clear, however, from that case that hardship or other injurious effect on the defendant may mean a stay will be granted (p 2).

[4] Both the plaintiff and the defendants also referred to the factors set out by Hammond J in *Dymocks Franchise Systems (NSW) Pty Ltd v Bilgola Enterprises Ltd* (1999) 13 PRNZ 48. At para 9 Hammond J says:

“The factors to which Courts conventionally address themselves to find this balance include the following:

- “1. If no stay is granted will the applicants’ right of appeal be rendered nugatory?
- “2. The bona fides of the applicants as to the prosecution of the appeal.
- “3. Will the successful party be injuriously affected by the stay?
- “4. The effect on third parties.
- “5. The novelty and importance of the question involved.

- “6. The public interest in the proceedings.
- “7. The overall balance of convenience.”

Discussion of factors

[5] The defendant, rather than going through each of the factors in detail, submitted that the overall balance of convenience favoured the granting of a stay.

[6] The plaintiff went through each of the tests set out by Hammond J in detail. It submitted that the first test set out by Hammond J is not met by the defendants as their evidence does not go so far as to show that the appeal rights *would* be nugatory. At best the evidence shows that they *may* be. The plaintiff further submits that in any event this is only one of the factors to be taken into account.

[7] The defendants argue that, if a stay is not granted, then it may force the first defendant to cease selling cutting tools at all in the New Zealand market pending the appeal. If it does so then the relationship between the first and second defendants is likely to break down (given that sales of the first defendant's cutting tools equate to about 25 percent of the second defendant's sales). The second defendant would either need to restructure its business or be put to the expense and inconvenience of trying to find alternative suppliers (and no one supplier could supply the full range currently supplied by the first defendant). Either way there would be considerable hardship and inconvenience for the second defendant. In relation to the first defendant, if the appeal was successful, in all likelihood the first defendant would then need to seek a new distributor which would cause significant hardship, if indeed it proved possible.

[8] Alternatively it would force the first defendant to change the brand name for New Zealand. This in itself is not an easy exercise. For example, changing the stamping on individual tools for New Zealand only would be difficult and costly as there are 3,000 different items which would potentially need to be stamped individually for the New Zealand market. In addition, substantial expense would be needed for the rebranding.

[9] A temporary change of brand would be pointless, given rebranding is a substantial exercise. Once the brand was changed it is unlikely therefore to be changed back, again rendering the appeal nugatory.

[10] Even allowing for some possible exaggeration in the evidence of the defendants the evidence goes further than suggested by the plaintiff. While it may not show that the appeal would be nugatory in absolute terms it shows a very high likelihood that it would be so in a practical commercial sense. There are usually no absolutes and the Courts must have regard to the commercial realities. As such I consider that this test is met. Of course, as the plaintiff submits, this is only one of the factors that is to be taken into account.

[11] In addition the defendants argue that this is not a case where they would be compensated for additional costs if their appeal were successful, in the absence of a specific undertaking as to damages on the part of the plaintiff. The plaintiff is of course not at this stage prepared to give such an undertaking as the costs have not been quantified. The defendants' counterclaim operates only for the future and to stop the use of the P&N brand by the plaintiff in the future. No past conduct is complained of. They thus argue that this is not a case where the appellant would have alternative remedies (such as a damages claim) if a stay is not granted. The

crucial point here is that the case is about the use of the name, not compensation. This is also a strong point in their favour.

[12] In relation to the second ground as set out by Hammond J — the bona fides of the applicants as to the prosecution of the appeal — the plaintiff submitted that the defendants have offered to move expeditiously but no practical steps have been taken and that the inference can be taken that the defendants are playing for time.

[13] The defendants dispute this and, given the time-frames involved and especially the fact that the terms of the injunction were not settled until 16 August, there does not seem to have been inordinate delay. The defendants set out in some detail the grounds of the appeal. There is no doubt that this case was not a straightforward one, given the complicated history of commercial arrangements and the issue of trademarks and goodwill which will be a central issue on appeal. The only relevance of the setting out of the grounds of appeal is to counter suggestions that there are no such grounds and that the defendants are merely trying to delay implementation of the judgment.

[14] The next point is whether the successful party will be injuriously affected by the stay. The plaintiff did not put forward any specific evidence of any particular damage that would be inflicted by the stay as such. Instead it submitted that it should be able to rely on the judgment of Hansen J where it was found as a fact that both long-term and short-term damage was being and would be suffered by the plaintiff. It submitted that damages are seldom an adequate remedy in cases where there are allegations of likelihood of confusion in trade so that the plaintiff, if it were successful on appeal, would not be adequately compensated for the damage done if the stay were granted. This is certainly an important point and one that must weigh heavily in the balancing exercise. On the other hand it is only for a defined period which can also be taken into account (especially given the likely early hearing of the appeal).

[15] In relation to the effect on third parties the plaintiff submits that the uncertainty is affecting the plaintiff's credibility in the marketplace. This appeared to be because the market knew that the plaintiff had been successful in its litigation but nothing seemed to have changed. This would seem rather a point to be taken into account in relation to the previous head but would not be one that should weigh heavily, especially as it may even indicate that those parties are not being deceived in respect of the defendants' products. No other evidence of effects on third parties not subject to the proceedings has been put forward, apart from possible redundancies if the second defendant is forced to restructure.

[16] The next question is the novelty and importance of the question. No submissions were made by either party on this head.

[17] The next issue addressed by the plaintiff was the public interest. The plaintiff submitted that Hansen J had found that there had already been cases of customers being misled and that thus this is not a case about possible future deception of the public. The plaintiff submitted that the defendants had already been given latitude in the terms of the injunction with the delay to allow the clearing of existing stock and that now the public interest should prevail. The defendants submitted that the delay given was in the context of a permanent injunction and in fact showed that Hansen J had acknowledged there was not such real urgency as would have merited immediate relief. A factor to consider in this context is that the plaintiff does not actually sell its products under the P&N brand.

Overall the public interest factor in this respect may be against the stay being granted but only marginally.

[18] The plaintiff also submitted that the public is being misled by the mislabelling of drills by the defendants, even though an undertaking had been given to correct the labelling immediately. The defendants submitted that it had been rectifying the packaging and in any event it related to only 16 out of 3,000 products and 1.6 percent of the sales in New Zealand. While it is therefore a factor to be considered (and the continuing mislabelling is a concern) it does not appear overwhelming.

[19] The plaintiff also pointed to three cases which it submitted were analogous to the present one and where it had been held that intellectual property rights and the public interest should take precedence, even if appeal rights are thereby rendered nugatory. In my view, the public interest is only one factor to be taken into account and its significance will vary from case to case.

[20] The first case discussed by the plaintiff was the case of *Philip Morris (NZ) Ltd v Liggett & Myers Tobacco Co (NZ) Ltd* [1977] 2 NZLR 41 (CA). In that case there were two firms trying to market and promote cigarettes under the same trademark. The Court of Appeal held that this was untenable and thus a stay should not be granted, even though in that case it was quite possible that this would render the appeal nugatory. It is of course to be noted, as indicated earlier, that the plaintiff does not use the P&N brand for its products and so this is one point of distinction. In addition, most of the defendants' major customers are wholesalers, retailers, and major end users, rather than the general public.

[21] Another reason for refusing the stay in *Philip Morris* was that the appellants in that case had taken a calculated risk in beginning to market under the disputed trade name. The plaintiff suggested that the case of the first defendant is similar in that it only decided to stop using its other brands after the proceedings had been commenced in New Zealand and thus took a gamble that they lost. They could always revert to using those other brands in the meantime.

[22] The first defendant deposed that the decision to revert to one brand had been taken much earlier than its announcement. In addition the decision had been taken for commercial reasons related to rationalisation of the whole of their production (and New Zealand only represents about 3 percent of its total sales). It cannot now revert to the other brands as production ceased some time ago. Add to this the fact that the plaintiff does not market its products under the P&N brand and it is clear that this case differs in major respects from the *Philip Morris* case.

[23] Another case pointed to where a stay was refused was that of *Monsanto Co v Stauffer Chemical Co (No 2)* (1984) 1 NZIPR 540. In that case it was held that the appeal rights would not be nugatory and that the injurious effect on the plaintiff of a stay were considerable. These factors alone mean that this case is different from the present. Likewise in the final case referred to of *Australian Surf Life Saver Pty v S & I Publishing Pty Ltd* (1998) 43 IPR 592, while the Court said that some degree of loss to an unsuccessful party may be inevitable, there was no finding that the appeal rights would be nugatory if a stay was not granted.

[24] In respect of the final test — the overall balance of convenience — it was stated by Eichelbaum J in *Monsanto*, at p 542, that he had to consider the effect of a stay or the absence of one in the period between the date of the application for a stay and the determination of the appeal. He indicated that, where there was an

interim injunction, there will be an overlap with considerations that were applicable to the grant of the injunction but for a different period of time. This indicates that the same type of considerations can be taken into account under this leg as for interim injunctions. Generally the short-term harm for the defendants appears much more serious than the short-term harm for the plaintiffs for the reasons canvassed above under the other heads. As such the balance of convenience operates in favour of a stay being granted. There has been no relevant disqualifying conduct on the part of the defendants which would change this conclusion.

[25] Taking into account and balancing all the factors discussed above the application for stay should be granted. This must be on the condition that the appeal is prosecuted with all due diligence.

[26] It appears that there may be a fixture available for the Court of Appeal in the last week of November. In anticipation of this the defendants suggested a timetable for prosecution of the appeal. In deciding whether the defendants have complied with the condition to prosecute the appeal with diligence regard should be had to that timetable. The timetable set out was as follows:

- (a) The defendants to file and serve their points of appeal on or before 2 October 2000.
- (b) In accordance with para 2 of the Civil Appeals Practice Note, the plaintiff would file and serve its points in reply on or before 16 October.
- (c) In accordance with para 3 of the Civil Appeals Practice Note, the defendants to file and serve their written submissions 20 calendar days prior to the hearing date (approx 7 November 2000) and the plaintiff would file and serve its written submissions 10 calendar days prior to the hearing date (approx 17 November 2000).
- (d) In accordance with the Civil Appeals Practice Note, the case on appeal would be filed and served on or before the filing time of the defendants' submissions.

[27] There were various other possible conditions suggested by the plaintiff and the defendants in their affidavits. At the hearing the defendants indicated that they no longer put forward their proposed solution involving over-stickering on the basis that it was not acceptable to the plaintiff and was in any event still an expensive exercise. The possible conditions suggested by the plaintiff, according to the defendants, would be almost as difficult to comply with as the injunction in its present form. Given this and also given the fact that it appears that an early hearing date in the Court of Appeal is likely, no further conditions should be imposed.

Order

[28] The defendants' application for a stay is granted on the condition that the appeal is prosecuted with all due diligence.

[29] In the event the plaintiff forms the view that the defendants are not complying with that condition, the plaintiff has leave to apply to rescind the order for stay on 7 days' notice.

Costs

[30] It was submitted on behalf of the plaintiff that costs should be awarded in any event to it. This was on the basis of both the conduct of the defendants and also on the basis that applications for stay are applications for an indulgence. *Hardie Boys J* in *Farmers Meat Export* referred to a submission in that case to the effect that costs should always lie with the party applying for a stay. This was referred to with apparent approval. On the other hand *Farmers Meat Export* was a case where the stay was refused and the plaintiffs in that case were able to enforce their judgment, albeit on terms that gave the defendants market interest in the event their appeal succeeded. As such the case cannot operate as authority for the proposition put forward by the plaintiff.

[31] While there is no absolute right to a stay, the principles outlined above in making a decision on the application for a stay relate to the balancing of two different rights. If the balancing exercise means that the stay is granted then this does not appear to be an indulgence but a recognition that the rights of the defendants prevailed on the balancing exercise. This in my view means that costs should, as is usual, follow the result, unless there are particular reasons why this should not be so. The fact that the application is for an indulgence is no different from numerous other provisions of the rules.

[32] The plaintiff argued that costs should not follow the result in this case because of the delays in prosecuting the appeal and delays in setting a timetable for that appeal. There does not appear to have been inordinate delay and in particular no inordinate delay after the injunction terms were set. Indeed the defendants argue that the plaintiff has not cooperated in setting a timetable as suggested in Hansen J's minute of 21 August 2000.

[33] Costs in respect of scale 2B are awarded to the defendants.

Application for stay pending appeal granted

Reported by Bernard Robertson