

MDEK-K-V

IN THE HIGH COURT OF JUSTICE—CHANCERY DIVISION

Before: Mr. Justice Aldous

C & H ENGINEERING v. F. KLUCZNIK & SON LIMITED*

12 March 1992

Copyright and design right infringement—Practice—Costs—Calderbank letter—Whether subsequent “without prejudice” correspondence privileged—Whether plaintiff should have accepted terms offered.

In the course of litigation, the defendant wrote the plaintiff a letter (a *Calderbank* letter) expressed to be without prejudice save as to costs and offering, *inter alia*, certain undertakings and the payment of a sum in respect of costs.

At trial, both the plaintiff and the defendant were successful on certain issues. On the question of costs, the defendant submitted (i) that both the *Calderbank* letter and subsequent correspondence should be taken into account, as the latter were not truly without prejudice letters and (ii) that in any event the plaintiff should have accepted the terms offered in the *Calderbank* letter. The plaintiff claimed that the terms of the *Calderbank* letter were inadequate and ambiguous.

Held,

(1) Even if the subsequent correspondence simply consisted of assertions of the plaintiff's rights, it was written in response to a without prejudice offer and so was privileged as forming part of the negotiations between the parties.

(2) It was not clear that the undertakings offered by the defendant were undertakings to the court. Further, they would have been difficult to enforce and were not referable to the plaintiff's rights.

(3) The sum offered in respect of costs was not referable to the costs of the issues on which the plaintiff succeeded and it was impractical for the plaintiff's solicitors to assess the offer made in the time allowed.

(4) Accordingly, the plaintiff was entitled to come to trial to have its rights vindicated.

Colgate Palmolive Ltd. v. Markwell Finance Ltd. [1990] R.P.C. 197, applied. *Winkle & Co. Ltd. v. Gent & Son* (1914) 31 R.P.C. 473, *Samuelson v. Producers Distributing Co. Ltd.* (1931) 48 R.P.C. 580, considered.

(5) The action and counterclaim would be taxed as one proceeding,

* The judgment on the counterclaim for infringement of design right in this action has been reported at [1992] F.S.R. 421.

with each party being entitled to the costs of the issues upon which it succeeded at trial.

Mary Vitoria, instructed by *M & S Solicitors* (Swepstone, Leics.), appeared for the plaintiff. *Jonathan D. C. Turner*, instructed by *Bowcock & Persaill* (Leek, Staffs.), appeared for the defendant.

ALDOUS J.: I gave judgment in this action on 23 January 1992 and I have already dealt with all the matters in dispute between the parties relating to the order that should be made except costs.

The plaintiffs submitted that the defendants should pay the costs of the action and counterclaim and the defendants submitted to the contrary. Neither submission is right.

The action as originally pleaded alleged infringement of copyright by the defendants' machines referred to as the prototype, the first production and the second production. They also alleged passing off. In essence I concluded that the plaintiffs succeeded upon those issues of copyright, and I believe that they should be entitled to the costs of those issues.

The plaintiffs did not pursue their claim for passing off, but it is clear that the defendants have incurred substantial costs relating to that claim during the preparation of this action. I believe they are entitled to the costs of that issue.

In the re-amended counterclaim, the defendants sought a declaration that the manufacture and marketing of their lamb creep feeders made to certain designs did not infringe any of the plaintiff's rights. Part of that claim related to the prototype, the first production and the second production, and as such, that part of the counterclaim failed. However, they also pleaded in their amended counterclaim that the third production model did not infringe. I held that plea to be correct. The issue relating to the third production model first arose in the counterclaim and the defendants, having succeeded on the question of infringement of the third production model, should be entitled to the costs of that issue.

The defendants also pleaded in their counterclaim infringement by the plaintiffs of the defendants' design right in a pig fender. They failed in that cause of action and the plaintiffs are entitled to the costs of that issue.

I believe it is unreal to split up the issues in this case on the basis of some being issues in the action and others being issues in the counterclaim. The question of copyright infringement arose both in the action and in the counterclaim and I believe it would be right for the taxing master to tax these proceedings as one proceedings. On the general principles to which I have referred I believe that the plaintiffs should be entitled to the costs relating to the issues of infringement of the prototype, the first production and the second production and also the issue of design right infringement; whereas the defendants should be entitled to the costs relating to the issues of infringement of the third production and the passing off.

Mr. Turner drew to my attention the costs that were incurred in making drawings of the alleged infringements. He submitted that the plaintiffs had incurred unnecessary costs and those should be excluded from any costs that

the plaintiffs should be entitled to recover. I decline to make any special order on this matter and leave it to the taxing master to decide what costs were properly expended.

Before arriving at a final conclusion I must refer to a letter of 28 June 1991 written by the solicitors for the defendants to the solicitors for the plaintiffs. That letter is what has become known as a *Calderbank* letter.*

"Dear Sirs,

Our client is willing to settle this action and counterclaim in the manner set out below.

1. Our client will undertake not to manufacture, market or sell lamb creep feeders of the designs referred to in the Defence and Counterclaim as the prototype design, the first production design and the second production design or any other design tolerably similar thereto.

2. Our client will undertake to destroy any lamb creep feeders as specified in (1) which are within its possession, power or control.

3. Your client will acknowledge that the manufacture, marketing and sale of lamb creep feeders according to the design referred to in the defence and counterclaim as the third production design with the branding referred to therein as the devised branding does not infringe its rights and does not contravene the undertaking in (1) above."

I need not read paragraph 4, which offers that the defendants will abandon their claim for infringement of their design right in relation to pig fenders. Neither need I read paragraph 5 which offers a sum by way of damages, or alternatively that the defendants would submit to an enquiry as to damages or an account of profits and interest. Paragraph 6 is in this form.

"6. Our client will pay the sum of £11,000 contribution towards your client's costs to be accepted in satisfaction of the claimed costs. We believe the designs referred to above are clear on the pleadings and inspections which have taken place. However, our client is willing to agree to identify them in any convenient matter if you consider that this is desired, necessary or desirable."

I need not read paragraph 7. The letter concludes in this way.

"This offer will remain open until noon on Monday, 8 July 1991. It is made without prejudice save as to costs. We consider that it represents more than your client's entitlement. Accordingly if your client does not accept it and the proceedings conclude in a manner which is not materially more favourable to your client than the proposals set out above our client will refer to this letter on the subject of costs."

Mr. Turner on behalf of the defendants submitted that I should also look at the subsequent correspondence. The plaintiffs objected on the grounds that such correspondence was privileged, being "without prejudice" correspondence. Mr. Turner submitted that the letters were not privileged as the plaintiff's letters did not indicate willingness to negotiate and only amounted to assertions of the plaintiff's rights coupled with intimations that the plaintiffs would take certain steps unless the defendants accepted. He submitted that such letters were not "without prejudice" letters and therefore were not privileged.

I will assume for the purposes of this judgment that the letters were, as he

* See *Calderbank v. Calderbank* [1976] Fam. 93.

submitted, assertions of the plaintiff's rights coupled with intimations that the plaintiff would take certain steps unless the defendant replied in terms of acceptance. Even so those letters were written in reply to the without prejudice offer that was privileged but now waived by the defendants. In my view the letters written by the plaintiff's solicitors in reply to the letter of 28 June which I have read were privileged just as much as the original letter was. That privilege is the plaintiff's and those letters were not admissible without the privilege being waived and are still not admissible as privilege has not been waived. They were part of the negotiations between the parties at the time. Mr. Turner seeks to draw a line between letters which say "pay up or else" and those which seek to "horse trade." No such line can in my view be drawn. All such letters are part of the negotiations and as such are privileged.

I believe that it is helpful to consider whether the subsequent letters would have been admissible in cross-examination of the plaintiff's witnesses. If they were, then any reply by the defendant's solicitors would also have been admissible. That could result in all matters relating to the transaction being admissible including, if counsel had been involved, all instructions to counsel and the like.

In any case I cannot see that the terms of those letters could be relevant. The relevance of the letter of 28 June is that an offer was made and I have to consider whether the plaintiffs should have accepted it and compromised the action upon those terms. That was the view that the Court of Appeal took in the *Winkle & Co. Ltd. v. Gent & Son* (1914) 31 R.P.C. 473. In that case there was an offer to give an undertaking in the defence and a payment into court. The Court of Appeal concluded that in such circumstances the plaintiff should have accepted an offer and made an appropriate order as to costs.

Miss Vitoria on behalf of the plaintiffs submitted that the offer made in the letter of 28 June was not adequate and the plaintiffs were under no obligation to accept it. In particular she submitted that the undertakings offered in paragraphs 1 and 2 were not undertakings to be offered to the court; secondly, that the undertaking in paragraph 1 was not applicable to the plaintiff's claim for copyright infringement and was ambiguous and unenforceable; thirdly, that the offer to pay £11,000 contribution towards the plaintiff's costs was inadequate in that it was impractical for the plaintiffs within the time given, namely up to 8 July 1991, to tax their costs of the issues which they wished to press and come to a conclusion as to whether £11,000 was adequate.

Miss Vitoria drew to my attention the judgment of Falconer J. in *Colgate Palmolive Ltd. v. Markwell Finance Ltd.* [1990] R.P.C. 197. In that case the judge considered a solicitor's letter offering settlement marked "without prejudice save as to costs" was written. At page 201 he drew attention to the fact that the offer was inadequate in three respects. First, it was made at a late stage; secondly, there was no offer to submit to an enquiry as to damages or an account of profits or to pay costs; and thirdly, that the offer only related to one type of toothpaste. His conclusion was that the offer was such as not

to deprive the plaintiffs of any part of their costs of the action and he made an appropriate order.

At page 200 he said this:

"It is a well-settled principle, supported by an abundance of authority that, in respect of property rights, in particular intellectual property rights such as patents, copyrights, trade marks and the right to protect goodwill against passing off, a person whose right has been infringed is entitled to come to court to have his right pronounced upon and vindicated and to an injunction against the infringer, *Spalding & Bros. v. Gamage Ltd.* (1915) 32 R.P.C. 273, (*per* Lord Parker at 287, *per* Lord Sumner at 288 and *per* Lord Parmoor at 289); *Mate & Son v. Samuel Stephen Ltd.* [1928-1935] Macg. C.C. 257; *Savory (E.W.) Ltd. v. The World of Golf Ltd.* [1914] 2 Ch. 566 at 570 (*per* Neville J.); *Performing Rights Society Ltd. v. Cyril Theatrical Syndicate Ltd.* [1923] 2 K.B. 146 at 156 (*per* Rowlatt J. at first instance); *Samuelson v. Producers Distributing Co. Ltd.* (1931) 48 R.P.C. 580 (*per* Lord Hanworth M.R. at 588, 1.42-589, 1.28 and *per* Romer L.J. at 593, 11.36-1.47). As to costs in such a case the general rule has been that the plaintiff is entitled to his costs of obtaining the injunction, as the cases just cited show, and that even if damages awarded do not exceed any payment in."

I would only qualify the learned judge's statements as to the law by pointing out, as Romer L.J. did in *Samuelson v. Producers Distributing Co. Ltd.*, (*supra*) at p. 593, line 47,

"that circumstances can arise during a trial which show that it is not necessary for the protection of the plaintiff that an injunction should be granted, but in such a case it is usual that the plaintiff is given liberty to apply for an injunction."

On behalf of the defendants it was submitted that the letter of 28 June did offer that the defendants would give undertakings to the court. I was referred to the *Winkle* case to which I have already referred and another case where undertakings were offered and were accepted as being offers of undertakings to the court. However, I do not believe that it is clear that the letter of 28 June was such an offer. It is incumbent upon a person who writes a letter making an offer to make it clear what the offer is. The letter can be read as an offer of a contractual undertaking just as it can be read as offering to give an undertaking to the court. In those circumstances I believe the plaintiffs were entitled to reject the offer. Further, the offer made in paragraph 1 is not to refrain from infringing copyright by reproducing the plaintiff's works and would have been difficult to enforce as a contractual undertaking, as it is by no means clear what is a design tolerably similar to the designs referred. Further I believe the offer in paragraph 6 to be unreasonable. It was not an offer to pay the appropriate costs of the issues of infringement of copyright relating to the prototype, the first production and the second production. It was an offer to pay £11,000 and it was quite impractical for the plaintiffs' solicitors to arrive at a conclusion as to whether it was a proper and fair offer by 8 July.

In the circumstances I believe that there is no reason why the plaintiffs should have accepted that offer, and they were entitled to come to trial to have their industrial property right considered by the court.

I have a general discretion to exercise when deciding what is the

appropriate order as to costs. There is no reason why I should not take into account the letter of 28 June and the matters to which I have referred. In the circumstances I believe it appropriate that I should consider the action and the counterclaim as one proceeding and the order as to costs should be the order that I have indicated, namely that the plaintiffs should have the costs of the issue relating to copyright infringement of the prototype, the first production and second production. They should also have the costs relating to the issue of infringement of design right. The defendants should have the costs of the issue of passing off and the costs relating to the issue of infringement of copyright by the third production model. Those costs should be taxed if not agreed, and the money owed to one or the other should be set off and paid. On that basis I believe that I have now decided all the matters in issue between the parties.