Federal Court Rules O 23 r 11 – offers of compromise – offer for dismissal of claim and to forego recovery of costs – whether genuine offer – implications where party acting reasonably in rejecting offer

In *Uniline Australia Ltd ACN 010752057 v SBriggs Pty Ltd ACN 007415518 (No 2)* [2009] FCA 920 Greenwood J considered a number of principles guiding the exercise of discretion in relation to costs, particularly when offers of compromise have been made under the formal process provided by the *Federal Court Rules.*

Facts

In March 2009 the Federal Court of Australia gave judgment in favour of Uniline Australia Ltd ("Uniline") in proceedings in which Uniline claimed a declaration, injunction and damages for unjustified threats under s 128 of the *Patents Act* 1990 (Cth). The Court also dismissed a cross-claim by SBriggs Pty Ltd ("SBriggs") for relief for infringement of a patent. A further cross-claim by Uniline seeking revocation of the patent was also dismissed.

In March 2008, Uniline had made an offer of compromise to SBriggs on terms that the application and both cross-claims be dismissed, with each party to pay its own costs. It was also a term of the offer that Uniline would pay $1000 to SBriggs. SBriggs had rejected both this offer and a second offer made in April 2008 on the same terms as the first.

The issue for the court was to determine the appropriate costs order in the circumstances.

Legislation

Order 23 rule 11 of the Federal Court Rules provides, in relevant respects:

> **Costs**
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> …
>
> (3) Subrules (4), (5) and (6) apply to an offer that has not been accepted within the time prescribed by subrule 5 (4).
> (4) If:
> (a) an offer is made by an applicant and not accepted by the respondent; and
> (b) the applicant obtains judgment on the claim to which the offer relates not less favourable than the terms of the offer;
> then, unless the Court otherwise orders, the applicant is entitled to an order against the respondent for costs incurred in respect of the claim:
> (c) up to and including the day the offer was made – taxed on a party and party basis, and
> (d) after that day – taxed on an indemnity basis.
> …
> (6) If:
> (a) an offer is made by a respondent and not accepted by the applicant; and
> (b) the respondent obtains an order or judgment on the claim to which the offer relates as favourable to the respondent, or more favourable to the respondent, than the terms of the offer;
> then, unless the Court otherwise orders:

(c) the respondent is entitled to an order that the applicant pay the respondent's costs in respect of the claim incurred up to 11 am on the day after the day the offer was made, taxed on a party and party basis; and
(d) the respondent is entitled to an order that the applicant pay the respondent's costs in respect of the claim incurred after that time, taxed on an indemnity basis.

…

Submissions

Uniline submitted that it should have the costs of its application for relief based on claims of unjustified threats of patent infringement proceedings, and its costs of the cross-claim, on the indemnity basis. It argued that the general discretion to award costs under s 43 of the *Federal Court Act 1976* (Cth) should be exercised in this way because it should have been obvious to SBriggs that its infringement action, and consequently its defence to the claim for unjustified threats, were bound to fail.

Uniline also argued that it was entitled to orders for costs of the unjustified threats proceeding as provided under O23 r 11(4) of the *Federal Court Rules*. In relation to SBriggs' cross-claim for patent infringement to which Uniline was respondent, it was contended that Uniline was entitled to a costs order as provided under order 23 rule 11(6). Uniline further submitted that its presumptive entitlement to these costs orders should not be displaced even if SBriggs had acted reasonably in rejecting the offer.

Uniline also sought an order for some or all of its costs of its further cross-claim for revocation of the patent. Uniline submitted that even though it did not succeed on this cross-claim~~it was not successful~~, this proceeding was essentially defensive and the costs were bound up in defending SBriggs' unsuccessful claim for patent infringement.

SBriggs submitted that there was no basis to exercise the general discretion to order indemnity costs against it because the evidence suggested it acted reasonably in agitating its claims. It also argued that an O 23 r 11(4) ought not be made because the offers of compromise made by Uniline involved no 'significant compromise' and so were not genuine offers, and because the rejection of the offers was neither imprudent nor unreasonable. It was submitted that O 23 r 11(6) did not apply to this proceeding because this subrule was inserted into the Federal Court Rules after Uniline had made its offer.

In relation to Uniline's further cross-claim for revocation of the patent, SBriggs argued this involved a conscious election by Uniline to put in controversy separate and discrete claims of invalidity, and it could not be regarded as merely defensive.

Analysis

Greenwood J did not accept that SBriggs had no chance of establishing infringement, as relevant matters turned on extensive expert evidence. Accordingly, he would not exercise his general discretion in respect of costs to order SBriggs to pay Uniline's costs of the proceeding for unjustified threats, or in resisting the cross-claim, on the indemnity basis.

Greenwood J found that Uniline's offers were genuine offers as envisaged by Order 23 rule 11(4) of the *Federal Court Rules*. These offers were considered genuine because Uniline was giving up its claims ~~for a declaration and an injunction~~ in respect of unjustified threats, and also offering to forego any claim for costs. His Honour found it could not be said the offers simply involved at invitation to SBriggs to capitulate and pay Unilne's costs to the date of capitation. He noted that was the nature of the offer in *Sydney Markets Limited v Sydney Flower Market Pty* Limited [2002] FCA 283, where the court declined to make on order for indemnity costs. Greenwood J was satisfied that an offer to abandon a claim for costs involves the giving up of something "meaningful, real and measurable." His Honour said this was particularly so when the offer is made after the completion of case managed preparatory steps. It could not therefore be said that the offers involved no real concession by Uniline.

His Honour said that an offeree ought only to be relieved of the consequences of the rule in support of an order "otherwise" if the offeree can demonstrate compelling and exceptional circumstances to support a different form of order. The existence of some reasonable basis for the rejection of the offer was not enough. Accordingly, SBriggs was ordered to pay the costs of the unjustified threats proceeding from the date of Uniline's first offer.

In relation to SBriggs' cross-claim, Greenwood J held that O 23 r 11(6) did not apply to the offer because that sub-rule commenced operation after Uniline's offers. However, it was appropriate to take the offer into account in the exercise of the general discretion as to costs. His Honour awarded Uniline its costs of the cross-claim on a party and party basis, with a 12% uplift.

Uniline was ordered to pay SBriggs' party and party costs of the cross-claim for revocation on a number of grounds on which Uniline was unsuccessful. Uniline was not ordered to pay costs in respect of this cross-claim on various other grounds, as these matters were not considered to have added additional costs.

Comment

Although the making of an offer outside the rules of court may still be taken into account by the court in framing a costs order, authority supports the proposition that the mere refusal of a *Calderbank* offer does not itself warrant an order for indemnity costs, and the offeror must show that the conduct of the offeree was unreasonable: *Black v Liplovac* (1998) 217 ALR 368; *Alpine Hardwoods (Aust) Pty Ltd v Hardys Pty Ltd (No 2)* (2002) 190 ALR 121.

However, as this decision highlights, the existence of reasonable grounds to reject an offer will not persuade the court that it is appropriate to "order otherwise" as envisaged by Order 23 of the Federal Court Rules. The Queensland Courts have shown a similar reluctance to be persuaded that "another order for costs is appropriate in the circumstances" under the offer to settle provisions in the *Uniform Civil Procedure Rules 1999* (Qld) (See UCPR rr 360, 361).

It is also significant to note that although there must be some element of compromise before the benefit of the provisions will be attracted, the offer to abandon the relief claimed and to forego any entitlement to legal costs was regarded as sufficient.

It is not uncommon for litigants to make offers in the form of a *Calderbank* letter. However, this decision is one of many which demonstrates the benefits which may flow if advantage is taken of the formal procedures for offers of compromise under the Rules of Court. Skilful use of the formal procedures is ~~also~~ a particularly effective way to apply pressure on an opposing party to reach a reasonable compromise.