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Explaining Contractual Remoteness in Singapore

Assumption of responsibility; Damages; Interpretation; Remoteness; Singapore

Introduction

The Singapore Court of Appeal (the Court of Appeal) has in MFM Restaurants Pte Ltd v Fish & Co Restaurants Pte Ltd rejected Lord Hoffmann's assumption of responsibility test (articulated in The Achilleas²) to determine whether damages are too remote in a contractual claim. The Court of Appeal, however, retained assumption of responsibility as a concept to explain the orthodox test for remoteness as embodied in *Hadley v Baxendale*, To that extent, it expressly accepted Lord Hoffmann's approach in The Achilleas in so far as the concept of assumption of responsibility is already incorporated or embodied in both limbs of the Hadley test. Two questions arise from this decision and form the scope of this comment. First, what is the actual disagreement between the Court of Appeal's more "orthodox" approach, and Lord Hoffmann's approach? Secondly—depending on the answer to the first question—can "assumption of responsibility" as a concept justify the Hadley test without it being the test in fact? If the scope of disagreement between the Court of Appeal and Lord Hoffmann is less than fundamental, and assumption of responsibility as a concept can explain the existing orthodox test without subverting it, then the approach adopted by the Court of Appeal may well give effect to Lord Hoffmann's approach in The Achilleas in a more practically feasible way.

Rejection of assumption of responsibility test

Before dealing with these questions, it may be useful to first understand the background of the decision at hand. *MFM Restaurants* concerned the assessment of damages arising from the breach of a settlement deed between MFM and Fish

¹ MFM Restaurants Pte Ltd v Fish & Co Restaurants Pte Ltd [2010] SGCA 36 (MFM Restaurants). Andrew Phang J.A. delivered the judgment for a unanimous court comprising also Chao Hick Tin and V.K. Rajah JJ.A.

² Transfield Shipping Inc v Mercator Shipping Inc (The Achilleas) [2009] 1 A.C. 61 HL.

³ Hadley v Baxendale (1854) 9 Ex. 341. In doing so, the court preferred the orthodox two-limb test (which it had endorsed most recently in Robertson Quay Investment Pte Ltd v Steen Consultants Pte Ltd [2008] 2 S.L.R.(R.) 623; see Goh Yihan, "Robertson Quay Investment Pte Ltd v Steen Consultants Pte Ltd" (2009) 9 O.U.C.L.J. 101) to determine whether damages are too remote in contract.

⁴ MFM Restaurants [2010] SGCA 36 at [140].

⁵The court does not actually use this term to describe its approach but other commentators have used this to describe the approach under *Hadley*: see, e.g. Lord Hoffmann, "The Achilleas: custom and practice or foreseeability?" (2010) 14 Edin, L.R. 47, 50.

& Co. Both parties were (and are still) operators of separate chains of seafood restaurants in Singapore. The settlement deed had arisen out of a prior dispute. Fish & Co previously employed one Dickson Low, the second appellant, in the present appeal. Dickson subsequently left Fish & Co to join MFM. However, he was alleged to have breached certain aspects of his employment contract with Fish & Co by helping MFM set up its restaurants and divulging confidential information to MFM. Fish & Co eventually entered into the aforementioned settlement deed with Dickson and MFM in respect of those alleged breaches. The present appeal concerned the assessment of damages from MFM's breaches of this settlement agreement. Fish & Co claimed damages during the time the breaches occurred, and also after the breaches had ceased. The latter period gave rise to the question of whether the losses suffered then were too remote. This in turn required the Court of Appeal to consider the applicable law to ascertain the remoteness of damages in contract, particularly in light of the House of Lords' recent decision in *The Achilleas*.

In holding that the post-breach losses were not too remote, the Court of Appeal reaffirmed the applicability of the two-limb test in *Hadley*, which it had only recently endorsed.⁶ It held that it was "illogical" to expect losses to stop immediately after the breaches had ceased.⁷ MFM was therefore liable for these post-breach losses. The damages to be awarded would fall within the first limb of the test in *Hadley*, as those arising naturally according to the usual course of things as a result of the breaches. In the course of reaffirming *Hadley*, the Court of Appeal had to deal with Lord Hoffmann's assumption of responsibility test in *The Achilleas*. In this regard, it rejected Lord Hoffmann's assumption of responsibility test in four clear steps.

First, the Court of Appeal alluded to the difficulties of the assumption of responsibility test itself: (1) the test was (arguably⁸) not part of the ratio decidendi of *The Achilleas*⁹; (2) the test suffered from various conceptual and theoretical difficulties by nullifying the role of remoteness role as an external inhibitor of damages claimable¹⁰; and (3) the test was uncertain in its application since it was difficult to ascertain accurately what contracting parties—who most likely contemplated performance and not breach—were assuming responsibility for in the event of breach.¹¹ More broadly, the Court of Appeal opined that the assumption of responsibility test was an attempt at reducing remoteness (and other concepts of contract law) to the singular concept of interpretation. While there is much to be said about universal conceptualisation, this particular attempt may well be too abstract.¹² This would, in turn, contribute to the uncertainty in the application of the assumption of responsibility test.

Secondly, having pointed out the difficulties with the assumption of responsibility test, the Court of Appeal explained why the two-limb *Hadley* test ought to be preferred (and hence retained). This it proceeded by way of four sub-points: (1) the two limbs of the test in *Hadley* already embody the concept of assumption of

In Robertson Quay [2008] 2 S.L.R.(R.) 623.
 MFM Restaurants [2010] SGCA 36 at [143].

⁸ cf. Paul C.K. Wee, "Contractual Interpretation and Remoteness" [2010] L.M.C.L.Q. 150, 157.

MFM Restaurants [2010] SGCA 36 at [90]–[91].
 MFM Restaurants [2010] SGCA 36 at [92]–[93].
 MFM Restaurants [2010] SGCA 36 at [94]–[97].

¹² MFM Restaurants [2010] SGCA 36 at [98].

responsibility, and justifiably so by the different degrees of knowledge required under each limb¹³; (2) the test in *Hadley* is consistent with both logic and the idea of agreement; it is consistent as it gives effect to what the parties would have intended depending on the different degree of knowledge required¹⁴; (3) the test in *Hadley* avoids the problems with the assumption of responsibility test, principally that of uncertainty¹⁵; and (4) the test in *Hadley* provides the necessary framework for analysis and, ultimately, to achieve justice and fairness practically in an instant case.¹⁶

Thirdly, the Court of Appeal demonstrated that applying the test in *Hadley* to *The Achilleas* would have yielded the same result reached by the House of Lords. The broader point here is that "the principles in *Hadley* may well be sufficient to achieve justice in the case at hand without the need for a further (and artificial) construct of an assumption of responsibility". To further substantiate its point, the Court of Appeal then pointed out that the assumption of responsibility test had been subject to much academic criticism, apparently much more than is the norm, for similar problems already identified by the Court of Appeal. 18

Fourthly, the Court of Appeal looked at developments after *The Achilleas* and concluded that none of these justified the "assumption of responsibility" test or offered a better alternative. ¹⁹

In the circumstances, the Court of Appeal held that:

"[W]e ... confirm the approach relating to remoteness of damage in the law of contract as set out in the decision of this court in *Robertson Quay* (which affirmed the principles laid down in *Hadley*). We also take this opportunity to state that the approach advocated by Lord Hoffmann in *The Achilleas* is not the law in Singapore, except to the extent that the learned law lord's reliance on the concept of assumption of responsibility by the defendant is already incorporated or embodied in both limbs in *Hadley* itself."²⁰

What is the difference between the Court of Appeal's approach and Lord Hoffmann's approach?

It can be seen from the above that the Court of Appeal set out to reject Lord Hoffmann's assumption of responsibility test in a most comprehensive fashion. Despite this, it may be that the difference between the Court of Appeal's approach and Lord Hoffmann's approach is not fundamentally distinct. Rather, the difference seems to be how to give effect to the concept of assumption of responsibility. A few points may be made to support this proposition.

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    MFM Restaurants [2010] SGCA 36 at [101]-[107].
    MFM Restaurants [2010] SGCA 36 at [108]-[109].
    MFM Restaurants [2010] SGCA 36 at [110].
    MFM Restaurants [2010] SGCA 36 at [111]-[113].
    MFM Restaurants [2010] SGCA 36 at [116].
    MFM Restaurants [2010] SGCA 36 at [117].
    MFM Restaurants [2010] SGCA 36 at [121]-[133].
    MFM Restaurants [2010] SGCA 36 at [140].
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The continued relevance of assumption of responsibility

The first point is that assumption of responsibility as a *concept* is still relevant in Singapore for the determination of remoteness in contract law. It is important to be clear as to what was rejected in MFM Restaurants: assumption of responsibility as an independent criterion for ascertaining remoteness was rejected, not assumption of responsibility as a concept. Thus, in so far as assumption of responsibility—as a concept—is embodied within the two limbs of Hadley, that is still good law in Singapore. The difference between the Court of Appeal's approach and Lord Hoffmann's approach is not with the acceptability of this concept in explaining remoteness, but with how to give effect to it. Whereas Lord Hoffmann in The Achilleas would give effect to this concept by elevating it to the status of an independent legal criterion (to be determined by interpreting the contract), the Court of Appeal merely acknowledged assumption of responsibility as a concept embodied within the two limbs of Hadley. For the Court of Appeal, therefore, when either limb of the *Hadley* test is satisfied, the parties are taken to have assumed responsibility for the losses suffered and the losses are thus not too remote. However, for Lord Hoffmann, the Hadley test may be necessary (to the extent that "foreseeability of damage" is applicable towards interpreting the contract21) but is otherwise insufficient to determine whether the parties had assumed responsibility for the losses suffered. More than foreseeability of damage (as well as other criteria from the Hadley test) must be proved; the process involves a wholesale interpretation of the contract. Put another way, assumption of responsibility ceased to be merely justificatory for Lord Hoffmann in The Achilleas; it had also become the test to determine remoteness.

Seen in this light, both the Court of Appeal and Lord Hoffmann are actually agreed as to the theoretical understanding of remoteness: damages are not too remote where parties have assumed responsibility for them.²² The difference, as already mentioned, is how to give effect to this explanation. One possible way of characterising this difference might be to say that the Court of Appeal's approach is "external" whereas Lord Hoffmann's approach is "internal", the two labels referencing the degree of importance the law places on the parties' intentions.

To elaborate, the Court of Appeal would rely on the two limbs in *Hadley* and focus on the degree of knowledge attributable or known to the defendant. Where the requisite degree of knowledge has been reached, the Court of Appeal would objectively impute to the defendant the obligation to compensate on the basis that it had assumed responsibility for the type of damage in question.²³ In this way, the *Hadley* test operates "externally" as a default rule to impute assumption of responsibility based on a single criterion, namely knowledge. In contrast, Lord Hoffmann's approach focuses on the objectively ascertained intentions of the parties. This goes beyond looking merely at knowledge, as is required, inter alia, under the *Hadley* test. This involves an interpretation of the entire contract to determine if the defendant had indeed assumed responsibility for the type of damage

²¹ Lord Hoffmann, "The Achilleas" (2010) 14 Edin. L.R. 47, 52-53.

²² Thus accepting the thesis in Adam Kramer, "An Agreement-Centred Approach to Remoteness and Contract Damages" in Nili Cohen and Ewan McKendrick (eds), *Comparative Remedies for Breach of Contract* (Oxford: Hart Publishing, 2005), Ch.12, p.249.

²³ MFM Restaurants [2010] SGCA 36 at [107].

in question. In this sense, the approach is "internal" in so far as it focuses on the parties' intentions solely. It does this without recourse to any external test that bridges the gap between, for example, knowledge and actual assumption of responsibility. There are, however, two problems with characterising Lord Hoffmann's approach as being "internal".

Lord Hoffmann's approach envisages an external presumption

The first is that Lord Hoffmann's approach envisages a presumption which is applied externally, independent of the parties' intentions. In *The Achilleas*, Lord Hoffmann framed his approach as follows:

"The case therefore raises a fundamental point of principle in the law of contractual damages: is the rule that a party may recover losses which were foreseeable ('not unlikely') an external rule of law, imposed upon the parties to every contract in default of express provision to the contrary, or is it a prima facie assumption about what the parties may be taken to have intended, no doubt applicable in the great majority of cases but capable of rebuttal in cases in which the context, surrounding circumstances or general understanding in the relevant market shows that a party would not reasonably have been regarded as assuming responsibility for such losses?" 24

It has been perceptively pointed out that Lord Hoffmann had actually advocated a "soft" version of the assumption of responsibility test. This means that Lord Hoffmann has in place a default rule in the event that the parties' intentions do not provide an answer to whether they had assumed responsibility. If this is correct, then there is no real "external-internal" distinction between the Court of Appeal's approach and Lord Hoffmann's approach. As a presumption capable of rebuttal, Lord Hoffmann's approach nonetheless envisages an external standard which bridges the gap between the requisite degree of foreseeability (i.e. "not unlikely") and assumption of responsibility. Where that presumption applies in the absence of any indication of actual assumption or non-assumption of responsibility, then it operates similarly with the *Hadley* test by attributing assumption of responsibility to the defendant on the basis of some pre-defined criterion, in this case, foreseeability of damage.

The limited reach of interpretation as an umbrella concept

The second problem concerns the use of "interpretation" as an umbrella concept to ascertain whether the parties had assumed responsibility for particular types of damages. By adopting interpretation as a tool to determine whether parties had assumed responsibility for a particular type of damage, Lord Hoffmann's approach seems to be "internal" in that it relies solely on the parties' intentions. The problem is that the ascertainment of intentions under English law is an objective exercise. ²⁶ There is here an external rule of law that mandates that the search for intentions

²⁴ The Achilleas [2009] 1 A.C. 61 at [9].

Wee, "Contractual Interpretation and Remoteness" [2010] L.M.C.L.Q. 150, 168.
 Lord Hoffmann, "The Achilleas" (2010) 14 Edin. L.R. 47, 60.

via contractual interpretation be objective.²⁷ The significance of this is that there is an artificial restraint on what can be used to ascertain the parties' intentions. By asking what a reasonable person would have assumed responsibility for, the law turns to similar indicia of intentions as under the *Hadley* test, i.e. knowledge, foreseeability, etc. This is a point we take up further below.²⁸

A broader point²⁹ relates to the limited reach of "interpretation" as an umbrella concept explaining most of contract law. The Court of Appeal in *MFM Restaurants* rejected Lord Hoffmann's use of "interpretation" as a technique to determine whether parties had assumed responsibility for particular types of damages. With respect, this must be correct. To do otherwise would be to bring "interpretation" past its proper function of ascertaining the objective intentions of parties to imputing intentions to the parties. Contract law, quite obviously, does in certain cases impute intentions to the parties. However, where it does so, it must not be done under the guise of "interpretation". That would distort the function and purpose of contractual interpretation. And that is the danger with seeking to reduce everything in contract to the umbrella concept of interpretation. Indeed, while language is open to varying degrees of interpretation, it is not infinitely malleable and cannot be given whatever meaning the judge desires. The danger with using "interpretation" as a technique to ascertain whether parties had assumed responsibility for certain types of damages is to expose the judge to the dangers of judicial imputation of intention.

This is especially so given the artificiality of expecting the parties to have contemplated the assumption of responsibility in the event of a breach, when performance would have been at the forefront of their contemplations. This problem is exacerbated by the rule in English law that pre-contractual negotiations are inadmissible towards interpreting the contract, most recently affirmed by the House of Lords in *Chartbrook v Persimmon Homes*. It is legitimate to think that if contracting parties do contemplate how to allocate risks and responsibilities in the event of breach, this would most clearly come out in the course of negotiations. The inadmissibility of prior negotiations therefore handicaps the ascertainment of assumption of responsibility in a remoteness inquiry. The inability to consider prior negotiations, among others, means that to utilise "interpretation"—hitherto used as a shorthand to describe the objective ascertainment of the parties' intentions through the language of the contract—as a technique to "find" such assumption of responsibility may be to take "interpretation" far beyond the safety limits of its

²⁷ See also MFM Restaurants [2010] SGCA 36 at [111]:

[&]quot;Any approach is necessarily a claim to universal applicability. Looked at in this light, even the approach advocated by Lord Hoffmann in The Achilleas is, notwithstanding its focus on the actual intentions of the parties themselves, necessarily itself a universal and external rule of law — albeit one (which we have explained above) that engenders excessive and unnecessary uncertainty." (Emphasis in original.)

that engenders excessive and unnecessary uncertainty. (Emphasis in original.)

28 See Harvey McGregor QC, McGregor on Damages, 18th edn (London: Sweet & Maxwell, 2009), para 6171, who writes that it is the subjective intention that ought to be relevant:

[&]quot;What Lord Hoffmann and Lord Hope propose is full of difficulty, uncertainty and impracticality. How are we to tell what *subjectively* the contracting parties were thinking about assumption of responsibility? When contracting, assumption of responsibility was probably not in their minds at all, for it is well known that parties entering a contract are thinking of its performance rather than of its breach. Apart from this uncertainty there is the impracticality of allowing defendants to raise the issue, as they will surely do, in case after case as an extra argument, thereby taking up the time of the courts unnecessarily and making the arriving at settlements more difficult." (Emphasis added.)

Not necessarily related to whether Lord Hoffmann's approach is an "external" one.

³⁰ See also Andrew Robertson, "The basis of the remoteness rule in contract" (2008) 28 Legal Studies 172, 185.
³¹ Chartbrook ν Persimmon Homes [2009] 3 W.L.R. 267 HL.

original purpose. It is far better, as the Court of Appeal said, to focus on the parties' knowledge, and then to impute to the defendant the requisite assumption of responsibility that then justifies his or her being liable for the damage concerned.

Can "assumption of responsibility" explain the test in Hadley without being the actual test?

From the above, we see that the difference between the Court of Appeal's approach and Lord Hoffmann's approach lies not in the theoretical justification behind remoteness, but in how to give effect to it. Even then, we observe that both approaches are external in that they rely on an outside standard to bridge the available indicia of the parties' intentions and assumption of responsibility. For the Court of Appeal, the standard is the requisite degree of knowledge under Hadley. For Lord Hoffmann, the standard is foreseeability of damage, but this may be rebutted via an interpretation of the contract. However, it can be argued that even when one interprets the contract, owing to the objective approach under English law, one is still applying an external standard which artificially restricts the facts which may be admissible to ascertain the parties' intentions. To that extent, therefore, under both approaches, any assumption of responsibility is not only justificatory of remoteness, it is also imputed by the court. Thus assumption of responsibility operates similarly under both approaches: it serves merely a justificatory role, without being the actual determinant of whether damages are recoverable.32

Once it is realised that even under Lord Hoffmann's approach there is no actual ascertainment of the parties' intentions, then any difference between the Court of Appeal's approach and Lord Hoffmann's approach all but disappears. In both approaches, the important question is how to bridge the gap between the facts and the theoretical justification of assumption of responsibility. In neither case does the court find an actual assumption of responsibility (quite unlike what a "strong" version of Lord Hoffmann's approach would entail³³). It is imputed, or at best, implied, in both cases. The practical issue becomes deciding the relevant factors that the courts should look at in order to impute assumption of responsibility to the parties.

For the Court of Appeal, knowledge under the *Hadley* test is sufficient. It offered the following explanation:

"Looked at in this light, it is our view that the criterion of knowledge furnishes a sufficiently objective basis on which to premise the existence (or otherwise) of an implied obligation or assumption of responsibility on the defendant. To leave the situation open to other factors would lead to unnecessary speculation as well as uncertainty." (Emphasis in original.)³⁴

For Lord Hoffmann, the criteria embodied with the *Hadley* test are insufficient. Writing extra-judicially, he has said:

34 MFM Restaurants [2010] SGCA 36 at [107].

³² If there were an express assumption of responsibility, this would likely form part of the express terms of the contract: see also MFM Restaurants [2010] SGCA 36 at [119].

³³ See Wee, "Contractual Interpretation and Remoteness" [2010] L.M.C.L.Q. 150, 168.

"The orthodox approach produces a high degree of indeterminacy because it relies on only two concepts: kind of loss and degree of probability. But the cases show that these are open to very considerable manipulation to achieve what the court considers to be a fair result."

It is interesting that the Court of Appeal and Lord Hoffmann each extracted different concepts from the *Hadley* test. The Court of Appeal had in the earlier case of *Robertson Quay Investment Pte Ltd v Steen Consultants Pte Ltd (Robertson Quay)*³⁶ not seen the point in embarking on an exegesis of the precise degree of probability required to satisfy the threshold of "reasonable contemplation" in the *Hadley* test as to do so would be to engage in "semantic hairsplitting".³⁷ Instead, it focused almost exclusively on the requisite knowledge under the *Hadley* test, deeming that sufficient to impute an assumption of responsibility for the damage concerned. On the other hand, the failure of the courts to decide on the precise degree of probability presented a problem for Lord Hoffmann. He would therefore look to other indicia of parties' intentions; in fact, those relevant towards interpreting the contract. Which approach is preferable: the singular criterion preferred by the Court of Appeal, or the multi-factorial approach preferred by Lord Hoffmann?

It is suggested that the Court of Appeal's approach is preferable for the primary reason of certainty. If the Court of Appeal's approach already embodies the concept of assumption of responsibility as justification for remoteness, then, theoretically at least, it is identical with Lord Hoffmann's approach. The remaining issue, as already discussed, is how to give effect to this concept. The Court of Appeal's approach, using the existing *Hadley* test, provides a degree of familiarity that engenders certainty. It also focuses on knowledge, which is a far more ascertainable criterion compared with the degree of foreseeability necessary. Indeed, as the Court of Appeal said, the existing tests in *Hadley* are no more indeterminate than those based on the concept of assumption of responsibility.³⁸ This also avoids stretching the language of the contract to breaking point by trying to find an assumption of responsibility.

Conclusion

In practical terms, however, the continued retention of assumption of responsibility as a concept by the Court of Appeal is unlikely to cause much disquiet. At the end of the day, the applicable test in Singapore to determine whether damages are too remote in contract remains, quite firmly, the two-limb test in *Hadley*. The practical means of satisfying the two limbs will remain the state of knowledge on the part of the defendant. "Assumption of responsibility" remains in the background as a theoretical justification for the continued retention of the two limbs, and does not operate as a practical mean of satisfying either of the limbs.

In essence, the Court of Appeal's approach, while seemingly grounded in orthodoxy, may be seen as a deliberately incremental approach towards a more coherent understanding of the remoteness principles. The Court of Appeal in MFM Restaurants (and also earlier in Robertson Quay) has explained the basis of the

³⁵ Lord Hoffmann, "The Achilleas: custom and practice or foreseeability?" (2010) 14 Edin. L.R. 47 at 52.
³⁶ Robertson Quay [2008] 2 S.L.R.(R.) 623.

³⁷ Robertson Quay [2008] 2 S.L.R.(R.) 623 at [60]. ³⁸ MFM Restaurants [2010] SGCA 36 at [138].

two limbs in *Hadley* by way of an implicit (and imputed) agreement as to risk and responsibility inherent in those limbs. The Court of Appeal's approach, in the form of a justification for the existing rule rather than a new approach derived from such a justification, is preferable to the assumption of responsibility test in *The Achilleas*. As already pointed out by the Court of Appeal, this, first and foremost, avoids the uncertainty that is generated by the assumption of responsibility test. This is important in commercial matters. Moreover, in so doing, the Court of Appeal has not sacrificed conceptual coherence for convenience in so far as it related remoteness with implicit agreement as to risk and responsibility. This thereby achieves what Lord Hoffmann sought to do in *The Achilleas*, but with more certainty.

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