

JUDGMENT : MR. JUSTICE LLOYD: Chancery Division. 21st December 1999.

The interim application which is before me raises an interesting and possibly important point as to the extent of the protection afforded to communications made for the purposes of negotiating the compromise of disputes. The question arises urgently. I would have preferred a longer time in which to reflect upon the issues and consider my judgment, but the parties need to know the position before the court vacation starts. The reason for this urgency is that the defendant wishes, and intends unless restrained by an injunction, to use some of the material which is the subject of the proceedings in and for the purposes of United States proceedings. These are due to come on for trial on 14th February next year. Depositions for the trial are in the course of being taken and are due to be resumed in January.

The English litigation

There is a substantial history of litigation between Mr. David Instance, the first claimant, and companies owned or controlled by him on the one hand and Denny Bros- Printing Ltd, the first defendant, and companies owned or connected with it or with the Messrs. Denny.

In 1991 and 1992 Mr. Instance and one of his companies, David J Instance Ltd, which has been referred to, and I will refer to, as Inprint, started two patent actions in England and were met by counter-claims as to the invalidity of the patents. These actions were compromised by a confidential settlement agreement dated 25th October 1993. This followed protracted negotiations.

I can take this part of the history most easily from three paragraphs in the witness statement of Marija Jurate Danilunas for the claimants where she says this:

"Both prior to and during the course of the 1991/92 UK actions, without prejudice letters and other confidential communications such as agendas, notes of meetings and telephone conversations passed between the parties in furtherance of efforts to settle that litigation. However, the content of such correspondence, discussions and meetings was not limited to the settlement of the particular piece of litigation, but included discussions relating to settlement of world-wide patent and other disputes, current and future, such as the protection afforded in other countries to the Inprint patents the subject of the 1991/92 UK actions, and possible future world-wide disputes between Inprint, Denny, F-A-F Int. and F-A-F licensees in relation to other patents. Denny wished to negotiate a benefit for its world-wide licensees and inevitably settlement discussions were on a world-wide basis.

These settlement discussions covered the period from July 1991 to October 1993, and a significant amount of correspondence was generated in that period in relation to settlement. The correspondence was generally headed "without prejudice" and passed between Mr. Instance at Inprint and Barry Denny, the managing director of Denny at that time, and between their respective solicitors.

Mr. Instance and Mr. Denny also attended without prejudice meetings and engaged in lengthy telephone discussions in relation thereto. There were a number of occasions when they met without their lawyers being present. At the beginning of each of the meetings it was the practice for Mr. Instance (and I, if I was present) to make clear to Denny and F-A-F Int. (if a representative of that company was present) that the meeting was to be on a without prejudice and confidential basis, and that this included not only the content of the meetings and correspondence but the fact that such meetings were taking place. Denny without hesitation agreed to such conditions on each and every occasion, and also requested such treatment in letters and at meetings relating settlement discussions."

I should say that there is evidence on the other side and the deponent makes it clear that by no means everything in Miss Danilunas's witness statement is accepted. Issue is taken with number of particular points of relevance to this application, but not, on the other hand, to anything in the paragraphs that I have read.

I have seen the settlement agreement and I will read a small part of it. Clause 8 is headed "confidentiality" and consists of three sub-clauses of which I will read the first two.

8.1: "Subject only to the provisions of 8.2 and 8.3 below the parties hereto shall not disclose or comment on the terms of this agreement nor any matters relating to or arising from the High Court Action and counterclaim or the PCC Action and without prior written consent of the other party save for the purposes of enforcing this agreement and save that if either of the parties is under an obligation to disclose this agreement or the information the subject of this clause in any legal proceedings or pursuant to any duty owed by any of the parties or their professional advisers then such disclosure shall not constitute a breach of this clause by the said party.

"8.2: The parties hereto shall agree and jointly issue a press release acknowledging settlement of the litigation on the terms set out in schedule 3."

Nothing turns on clause 8.3.

The press release in schedule 3 is in the following terms: *"Proceedings between David J. Instance Ltd and Denny Bros. Printing Ltd and Fix-A-Form International Ltd in the High Court and in the Patents County Court in respect of patents held by David J. Instance Ltd have been settled. The patents in dispute and worldwide equivalent remain in force and Denny Bros. Printing Ltd and Fix-A-Form International Ltd were granted licences under them."*

The parties to that agreement were Mr. Instance, Inprint, Denny Bros. Printing and Fix-A-Form International Ltd. The agreement is expressly governed by English law. The *High Court* has exclusive jurisdiction. By the action in which this application is made the claimants say that they are seeking to enforce the agreement.

Entry into that agreement however did not bring a lasting peace between the parties. There were disputes as to compliance with the agreement. Without prejudice communications ensued and continued, according to the evidence, up until August 1998 on this issue.

Also since then seven further patent actions have been brought by one or the other side in this court. Five of them are due for trial in April next year. The parties did however try to avoid bringing these matters to court.

In June 1996 Mr. Instance's solicitors suggested mediation. In July the parties agreed to try mediation and on and after 13th September 1996 they met with Mr. Naughton QC on a without prejudice confidential basis. This led to the entry by the parties and Mr. Naughton and CEDR into a mediation agreement which was signed on 31st January 1997. This too is before me and is, at least by a very clear implication, governed by English law. It identifies the Dispute and records an agreement that the parties will attempt to settle the Dispute by mediation.

By the agreement the parties, who so far as those before me are concerned are Mr. Instance and Inprint on the one hand and Denny Bros. Printing on the other, agreed to the confidentiality provisions set out in paragraphs 16 and 17 of the model procedure of CEDR. Paragraph 16 is expressly amended by the agreement and I will read both paragraphs taking into account the amendment that I have just mentioned. The two paragraphs are headed: "Confidentiality etc.". Paragraph 16 is as follows:

"Every person involved in the mediation will keep confidential and not use for any collateral or ulterior purpose all information, (whether given orally, in writing or otherwise), produced for, or arising in relation to, the mediation including the settlement agreement (if any) arising out of it, except insofar as it is necessary to implement and enforce any such settlement agreement."

Paragraph 17: "All documents (which includes anything upon which evidence is recorded, including tapes and computer discs) or other information produced for, or arising in relation to, the mediation will be privileged and not be admissible as evidence or discoverable in any litigation or arbitration connected with the dispute except any documents or other information which would in any event have been admissible or discoverable in any such litigation or arbitration."

During the discussions leading up to the entry into the mediation agreement Mr. Instance wrote a letter to Mr. Denny dated 26 September 1996 which was marked confidential but was expressly not marked without prejudice. The mediation did not succeed, but attempts were pursued to resolve the matter by mediation until about May 1998. When it became clear that these were not going to bear fruit the patent actions were revived.

There has also, according to the evidence, been some further without prejudice discussion in relation to the settlement of worldwide disputes continuing up to as recently as October this year.

The United States dispute

In June 1999 Inprint set up a company called Moss Printing Inc. as a wholly owned subsidiary. It bought a division of business formerly owned by a company called American Labelmark Company, which had the benefit of licences in respect of patents and of the trade mark Fix-A-Form from Denny Bros. and from Fix-A-Form International. It is said that there is no express provision of those licences which prohibit the assignment but there are issues on that and Denny also says there is a principle of the law of Illinois, which prohibits assignment of such a licence to a competitor of the licensor. Denny and F-A-F International objected to having Moss Printing, owned by Inprint, as their licensee.

Moss Printing started proceedings for a declaration that the assignment was valid and that there was no basis for F-A-F to terminate it. Moss Printing later added Denny as what is termed a "respondent in discovery", but it is said that Denny has never been served and it is therefore not effectively a party to the proceedings in Illinois.

Subject to the question as to the status of Denny in that litigation, the parties are Moss Printing and the assignor on the one hand and F-A-F International and F-A-F Incorporated on the other. That litigation is proceeding in

the courts of Cook County Illinois before Judge Dorothy Kinnaird. It was due for trial upon the issues of the assignability of the licence in mid January but that has now been put off until mid February.

Depositions of the UK based witnesses started on 16th November and continued in the week beginning 21st November. In the course of that process the claimant's solicitors discovered that the Denny side's US attorneys had been supplied by Eversheds, the English solicitors acting for Denny, with documents including some coming into existence in the course of negotiations between 1991 and 1997. These include four relating to the settlement of the 1991 and 1992 patent actions, all of them being marked without prejudice. They include the confidential but open letter of 26th September 1996 that I have mentioned. They also include one letter of October 1997 which is marked confidential and related to negotiations for the settlement of the then current UK actions.

In her first witness statement Miss Danilunas says of the letters in paragraph 29: "All the protected letters were written with the aim of achieving settlement of the 1991/92 UK action, the mediation, or the current UK actions as well as possible future world-wide disputes. They should only be used by the defendants for that purpose and none other. Their disclosure by Eversheds or Denny for use in the US proceedings was, in my view, a clear breach of the terms under which the documents and communications were exchanged."

Miss Salmon of Eversheds takes issue with that to a limited extent. In paragraph 25 of her witness statement she says: "With regard to paragraph 29, all the "protected letters"" were written in relation to other disputes before the current dispute arose and are therefore not written on a 'without prejudice' basis in the US dispute."

She takes issue not with the status of the letters as they were originally written but with their status in relation to the current US proceedings.

Objection was taken on behalf of the claimants to the use of this material in any way for the purposes of the depositions.

On 22nd November these proceedings were started. Discussions between the parties continued but they did not produce a result satisfactory to the claimants and accordingly the claimants brought before the court this interim application for an injunction.

The interim application

The material before the court consists of a witness statement of Miss Danilunas from which I have quoted made on 10th December, a witness statement of Miss Salmon from which I have also quoted made on 15th December, an affidavit of Paul J Kozacky, F-A-F's Illinois attorney in the United States litigation (the date of this is not immediately apparent but it may also be 15th December), a second witness statement of Miss Danilunas made on 17th December and a witness statement also made on that date, of Kenneth J. Jurek who is the attorney acting for the claimants, Moss Printing, and the assignor in the US proceedings.

This is one of those cases in which the result of the interim application will determine the whole proceedings. To the extent that there are unresolvable issues of fact I therefore need to take into account the strength or otherwise of the claim in weighing the balance of convenience: see **NWL v. Woods** 1979 1 W.L.R. 1294 and **Series 5 Software v. Clarke**, 1996 1 A.E.R. 853. This was not in dispute. I shall indeed take that matter into account in the course of my judgment as will appear.

The particulars of claim identify three classes of material. The first is called Without Prejudice Documents and Without Prejudice Information and consists of documents and information communicated in the course of negotiations to find a commercial resolution satisfactory to all parties to the various disputes which have arisen since 1991 between Mr. Instance and Inprint on the one hand and the defendants on the other. That I can call compendiously the Without Prejudice Material.

The second class of material is based on the 1993 settlement agreement and includes the agreement itself and documents and other communications arising before the agreement and also such matters relating to issues of enforcement and implementation of the agreement. I will call that the Settlement Agreement Material.

The third category is based on the mediation agreement and consists of documents and other communications produced for or which arose in relation to the mediation. I will refer to this as the Mediation Agreement Material.

The remedy claimed by the particulars of claim is an injunction in favour of Mr. Instance and Inprint against each defendant preventing them first from using the Without Prejudice Material for any purposes other than negotiating a settlement of the disputes, secondly, from disclosing or commenting on the 1993 confidential settlement agreement, save for the purposes of enforcement of that agreement, such injunction to extend to all the Settlement Agreement Material, but specifically to the use of an affidavit sworn by Mr. Instance in those proceedings, and thirdly, an injunction against using the Mediation Agreement Material for any purpose collateral or ulterior to mediation. This includes the open letter that I have mentioned of 26th September 1996.

In essence, the injunction claimed on the interim application before me is in the same terms, although expressly limited to last until trial or further order.

Disclosure in the US proceedings

Because of a point taken by the defendants I must refer to the fact that Moss Printing as claimant in the US proceedings asked for certain disclosure of documents which the defendants say resulted in their being obliged to disclose the disputed documents. Moss Printing does not accept that it is a competitor of F-A-F International, F-A-F Incorporated or Denny and the defendants in the US proceedings wish to use the disputed documents to support their case that Moss Printing is indeed such a competitor.

In August of this year Moss Printing asked for the disclosure of documents from the defendants in the United States proceedings. Apparently under Illinois law a party served with such a request must either produce the documents or object to the request on the grounds that it is improper.

Mr. Kozacky accepts that privileged matters ordinarily do not have to be disclosed but says that it was appropriate for the United States defendants to do what they did, namely to produce the disputed documents in pursuance to that request. He relies in support of this on the fact that the confidentiality obligations asserted operated as between F-A-F on the one hand and Mr. Instance on the other, and that Mr. Instance owns Moss Printing, the party which had sought "all" documents concerning the issue of competition. He asserts that Mr. Instance thereby waived the issue of privilege when his company asked for all documents and F-A-F waived it by giving Moss that which it had asked for.

The request by Moss Printing was for all documents relating to competition between on the one hand F-A-F and on the other Denny Brothers and other persons regarding the manufacture and sale of leaflet labels, and then relating to competition between F-A-F or Denny on the one hand and Inprint or Mr. Instance and other companies on the other hand. The answer to this was that the request was too broad and burdensome but that, without waiving this objection, F-A-F would produce documents readily available to it that showed that it is in competition with the Instance companies.

Moss Printing's second request delivered a little while later included at item 5: "All documents relating to the market or competition within the market for leaflet labels". It then included as requests 8-12 demands that were similar to some made in the first request as regards competition affecting particular companies.

F-A-F by its answer used similar terms to that in which it responded to the first request. Moss Printing then applied to the court for an order and an order was made on 10th November which does not appear to me to require disclosure of the disputed documents. Mr. Jurek says that the obligation to disclose did not extend to the disputed documents.

They should at most have been referred to with objection being taken to the production on the ground of privilege. It does seem somewhat striking, if the documents were protected from disclosure as between Mr. Instance and inprint on the one hand and Denny Bros. on the other, that their supply by Denny to attorneys acting for F-A-F followed by compliance or apparent compliance with the request by Moss Printing, itself not entitled to see the documents, should result in their being open to the world.

The English law as to without prejudice communications

This is an area of the law which has received some important study in the last 15 years. In **Rush & Tompkins v. GLC 1989 A.C. 1280**, the House of Lords held that without prejudice documents which have led up to a settlement between two parties in a multiparty litigation could not be called for by the remaining party. Previously the Court of Appeal in **Cutts v. Head 1984 Ch. 290** had held that a letter which was expressed to be written without prejudice except as to costs could be looked at after judgment on the question of costs. In

Muller v. Linsley and Mortimer unreported 30th November 1994 the Court of Appeal ordered disclosure, without deciding any question as to admissibility, of documents which had passed between the plaintiff in that action and defendants in another action.

Most recently in **Unilever Plc v. Procter & Gamble Company**, unreported 28th October 1999 the Court of Appeal held without prejudice protection prevented a party from starting a threats action under section 70 of the Patents Act 1977 relying on things allegedly said during without prejudice negotiations. In each of these cases observations of importance have been delivered about the scope of the protection.

I will start with some reference to **Rush & Tompkins v. GLC** since it emanates from the highest authority. As regards the Court's general approach, I start with a passage from the speech of Lord Griffiths, with which all the others of their Lordships agreed, at 1989 A.C. 1300 to 1301. He said this: "I cannot accept the view of the Court of Appeal that **Walker v. Wilsher**, 23 Q.B.D. 335, is authority for the proposition that if the negotiations succeed and a settlement is concluded the privilege goes, having served its purpose. In **Walker v. Wilsher** the Court of Appeal held that it was not permissible to receive a "without prejudice" offer on the question of costs and no question arose as to the admissibility of admissions made in the negotiations in any possible subsequent proceedings. There are many situations when parties engaged upon some great enterprise such as a large building construction project must anticipate the risk of being involved in disputes with others engaged on the same project. Suppose the main contractor in an attempt to settle a dispute with one subcontractor made certain admissions, it is clear law that those admissions cannot be used against him if there is no settlement. The reason they are not to be used is because it would discourage settlement if he believed that the admissions might be held against him. But it would surely be equally discouraging if the main contractor knew that if he achieved a settlement those admissions could then be used against him by any other subcontractor with *whom he might also* be in dispute. The main contractor might well be prepared to make certain concessions to settle some modest claim which he would never make in the face of another far larger claim. It seems to me that if those admissions made to achieve settlement of a piece of minor litigation could be held against him in a subsequent major litigation it would actively discourage settlement of the minor litigation and run counter to the whole underlying purpose of the "without prejudice" rule. I would therefore hold that as a general rule the "without prejudice" rule renders inadmissible in any subsequent litigation connected with the same subject matter proof of any admissions made in a genuine attempt to reach a settlement. It of course goes without saying that admissions made to reach settlement with a different party within the same litigation are also inadmissible whether or not settlement was reached with that party."

At the end of his speech on page 1305 he said this: "I have come to the conclusion that the wiser course is to protect 'without prejudice' communications between parties to litigation from production to other parties in the same litigation. In multi-party litigation it is not an infrequent experience that one party takes up an unreasonably intransigent attitude that makes it extremely difficult to settle with him. In such circumstances it would, I think, place a serious fetter on negotiations between other parties if they knew that everything that passed between them would ultimately have to be revealed to the one obdurate litigant. What would in fact happen would be that nothing would be put on paper but this is in itself a recipe for disaster in difficult negotiations which are far better spelt out with precision in writing.

"If the party who obtains discovery of the 'without prejudice correspondence can make no use of it at trial it can be of only very limited value to him. It may give some insight into his opponent's general approach to the issues in the case but in most cases this is likely to be of marginal significance and will probably be revealed to him in direct negotiations in any event. In my view this advantage does not outweigh the damage that would be done to the conduct of settlement negotiations if solicitors thought that what was said and written between them would become common currency available to all other parties to the litigation. In my view the general public policy that applies to protect genuine negotiations from being admissible in evidence should also be extended to protect those negotiations from being discoverable to third parties."

Lord Griffiths also pointed out that the rule does not depend upon the formality of using the label without prejudice if it is clear that parties are seeking to negotiate to settle a dispute. He considered the scope of the exceptions to the protection afforded by without prejudice status, to which I will return, including a consideration of the case of **Stretton v. Stubbs** decided by the Court of Appeal in 1905. He also relied on the Court of Appeal decision in **Rabin v. Mendoza & Co** 1954, 1 W.L.R. 271 on the question of an obligation to disclose without prejudice communications even as between the parties to those communications themselves.

I find helpful the passages that he cited from the judgments of Denning LJ and Romer LJ which are taken from 1954, 1 W.L.R. 273 and 274 as follows: *"Nevertheless if documents come into being under an express, or, I would add, a tacit, agreement that they should not be used to the prejudice of either party, an order for production will not be made. This case seems to me to fall within that principle. This report was clearly made as a result of a 'without prejudice' interview and it was made solely for the purposes of the 'without prejudice' negotiations. The solicitor for the plaintiff himself says in his affidavit that at the time of the interview it was contemplated that steps such as these should be undertaken."*

He therefore held that the production of the report should not be ordered. Romer LJ says this:

*"It seems to me that it would be monstrous to allow the plaintiff to make use - as he certainly would make use - for his own purposes as against the defendants of a document which is entitled to the protection of 'without prejudice' status." Previously in **Cutts v. Head** the Court of Appeal had recognised the efficacy of the making of offers expressed to be without prejudice save as to costs.*

In the course of his judgment Oliver LJ said at 1984 Ch., 306 the following: "That the rule rests, at least in part, upon public policy is clear from many authorities, and the convenient starting point of the inquiry is the nature of the underlying policy. It is that parties should be encouraged so far as possible to settle their disputes without resort to litigation and should not be discouraged by the knowledge that anything that is said in the course of such negotiations (and that includes, of course, as much the failure to reply to an offer as an actual reply) may be used to their prejudice in the course of proceedings."

Mr. Watson for the defendants relies on the words *"in the course of the proceedings"* as he does on Lord Griffiths' use at page 1301 of the **Rush & Tompkins** report of the phrase *"any subsequent litigation connected with the same subject matter."*

Mr Watson also relies on **Muller v. Linsley & Mortimer**, in particular for the proposition that the without prejudice rule applies only to admissions. In the course of that judgment Hoffman LJ reviewed the cases, especially **Rush & Tompkins** and **Cutts v. Head**. He pointed out that in **Cutts v. Head**, the parties to the litigation were also the parties to the without prejudice communications, and no public policy basis for excluding reference to the material on the debate on costs was found to exist. The only basis for the protection was therefore an implied agreement based upon general usage and understanding that the party making the offer would not refer to it on costs. That understanding was something which could be excluded by the express terms of the offer.

In **Rush & Tompkins** by contrast, as he commented, the party seeking disclosure was not a party to the communications so that the contract basis for the protection did not suffice and it had to be based on public policy. He also pointed to passages in the judgment of Oliver LJ and the speech of Lord Griffiths showing that the protection applies to admissions. Hoffman LJ then said this: *"If one analyses the relationship between the without prejudice rule and the other rules of evidence, it seems to me that the privilege operates as an exception to the general rule on admissions (which can itself be regarded as an exception to the rule against hearsay) that the statement or conduct of a party is always admissible against him to prove any fact which is thereby expressly or impliedly asserted or admitted. The public policy aspect of the rule is not in my judgment concerned with the admissibility of statements which are relevant otherwise than as admissions, ie. independently of the truth of the facts alleged to have been admitted."*

Later in his judgment he said: *"This is not the case in which to attempt a definitive statement of the scope of the purely convention-based rule, not least because, as Fox LJ pointed out in **Cutts v. Head** at p.316, it depends upon customary usage which is not immutable. But the public policy rationale is, in my judgment, directed solely to admissions. In a case such as this, in which the defendants were not parties to the negotiations, there can be no other basis for the privilege."*

Proceeding on that basis he held that the communications there in question were outside the scope of the protection, and expressed his conclusion in these terms: *"The without prejudice correspondence forms part of that conduct and its relevance lies in the light it may throw on whether the Mullers acted reasonably in concluding the ultimate settlement and not in its admissibility to establish the truth of any express or implied admissions it may contain. on the contrary, any use which the defendants may wish to make of such admissions is likely to take the form of asserting that they were not true and that it was therefore unreasonable to make them."*

The other members of the Court of Appeal gave their own judgments, relying at least in part on an additional point but they agreed with Hoffman LJ. His reasoning is therefore that of the court and necessary for the decision.

It is important to note that, when speaking of admissions, he was not only referring to something which could be seen as an admission in the context of the dispute which it was sought to compromise. His reference to the general rule on admissions shows that he was concerned with any statement which might at any stage be used to prove any fact against the maker of the statement. It was not limited to things relevant to the original dispute nor to things which in the context of that dispute were against the interest of the maker of the statement.

More recently, in **Unilever v. Procter & Gamble** the Court of Appeal had to review the rule as regards the without prejudice protection as between the parties to the communications in order to consider whether there is an exception to the rule allowing proof of a statement which is said to constitute a threat of patent litigation. They held there was not.

Considering the three cases from which I have cited passages, Robert Walker LJ who delivered the main judgment listed eight exceptions from the rule, none of which is in point in the present case, although I will refer later briefly to one of them. He also said this (at page 17 of the version of the judgment as handed down). "Conversely, however, I respectfully doubt whether the large residue of communications which remain protected can all be described as admissions (again, unless that expression is given an unusually wide meaning). One party's advocate should not be able to subject the other party to speculative cross-examination on matters disclosed or discussed in without prejudice negotiations simply because those matters do not amount to admissions."

He concluded on this in the following terms (on pages 22 to 23): "In those circumstances, I consider that this court should, in determining this appeal, give effect to the modern cases, especially **Cutts v. Head, Rush & Tompkins** and **Muller**. Whatever difficulties there are in a complete reconciliation of those cases, they make clear that the without prejudice rule is founded partly in public policy and partly in the agreement of the parties. They show that the protection of admissions against interest is the most important practical effect of the rule. But to dissect out identifiable admissions and withhold protection from the rest of without prejudice communications (except for a special reason) would not only create huge practical difficulties but would be contrary to the underlying objective of giving protection to the parties (in the words of Lord Griffiths in **Rush & Tompkins** at p.1300): "To speak freely about all issues in the litigation both factual and legal when seeking compromise and, for the purpose of establishing a basis of compromise, admitting certain facts."

Parties cannot speak freely at a without prejudice meeting if they must constantly monitor every sentence, with lawyers or patent agents sitting at their shoulders as minders.

*"Lord Griffiths in **Rush & Tompkins** noted (at p.1300c), and more recent decisions illustrate, that even in situations to which the without prejudice rule undoubtedly applies, the veil imposed by public policy may have to be pulled aside, even so as to disclose admissions, in cases where the protection afforded by the rule has been unequivocally abused."*

I should also mention the judgment of Neuberger J in **Hogkinson & Corby Ltd v. Wards Mobility Services Limited** 1997 F.S.R. 178 where at 190, having reviewed without prejudice material, he says this: "*In my judgment, where, as here, the party seeking to resist 'without prejudice' material being put before the court is able to rely not only on the public policy but also on the contractual ground, different considerations apply..... The parties are agreeing that the contents of the correspondence will not be referred to in the proceedings in which they are engaged or which they contemplate. Accordingly, none of the contents of correspondence may, in general, be referred to in the proceedings.*"

Before coming to the facts I must examine the application of the rule where a statement made under the protection of the rule has been allowed to be used in other litigation.

Though it is not in fact a case of this kind I will first mention **Waldridge v. Kennison** 1794 1 Esp. 142, which is discussed by Lord Griffiths in **Rush & Tompkins** at 1300. He regarded that case as exceptional and I derive no assistance from it. It was made the basis of a ruling in favour of the admission of a statement in subsequent litigation between two persons who had been parties to the earlier litigation but in the same interest in **Barden v. Barden**, 1921, 21 SR (NSW) 588. That ruling is very shortly reported and there are some puzzling features of it, such as why the statement was said to have been irrelevant to the issues in the earlier litigation. Again, I am not assisted by this report.

Lord Griffiths considered also **Stretton v. Stubbs** reported in The Times on 28th February 1905. He set out the so far as they appear, at 1989 A.C. 1301 to 2. One member of the Court of Appeal in that case, Matthew LJ, was recorded as referring to the without privilege protection giving privilege only for the purposes of the particular

action, although no authority or reason is given in support of that. Sir Richard Henn Collins M.R., is not apparently recorded as having agreed with that proposition. The case does not exactly speak for itself. Lord Griffiths said. "*I cannot however regard it as an authority of any weight for the proposition that 'without prejudice' negotiations should in all circumstances be admissible at the suit of a third party.*"

The present case of course is concerned with the position as between the parties to the communications and other entities related or connected to them, rather than with complete outsiders. At one point Mr. Watson sought to rely on the fact that the F-A-F parties were not party to any implied contract arising from the without prejudice communications and were therefore not bound by it. Wisely he withdrew from that position since they had come into possession of the documents by receiving them from Eversheds, acting on behalf of Denny Bros. who, if there was any such contract, were clearly parties to it and bound by it.

At one point also Mr. Watson sought to rely on the exception permitting proof of statements to show unambiguous impropriety. This was recognised by Robert Walker LJ as the fourth of his list of exceptions set out in **Unilever v. Procter & Gamble**. There he referred to the exclusion of the evidence acting as a cloak for perjury, blackmail or unambiguous impropriety. Robert Walker LJ pointed out that the Court of Appeal in two unreported decisions has warned that this exception should be applied only in the clearest cases of abuse of a privileged occasion: see **Forster v. Friedland** 10th November 1992 Court of Appeal transcript 1052, and **Fazl-Alizadeh v. Nikbin**, 25th February 1993, Court of Appeal transcript 205.

The abuse must therefore be of the privileged occasion. I did not look at the documents at issue in this case but it seemed to me clear from what Mr. Watson said about the submissions that he would seek to make on them that he would not be able to bring himself within this exception. He did not press the point and even if he did not formally withdraw it, I reject it.

I will deal later with the ambit of the express agreements, but on the basis that there may be documents and other communications which were without prejudice but which may not be covered by either of those agreements, I will first apply the general law that I have just reviewed to the facts.

The present dispute arises between persons who either were parties to the original communications or have obtained the documents from persons who were such parties, and, to the extent that it be relevant, are commercially and corporately connected with such parties. If there was an implied agreement the persons before me are either bound by it as parties or must be taken to be subject to it by reason of the source of the documents in their hands. In my judgment it is very strongly arguable, and indeed probable, that the without prejudice communications are indeed governed by an implied agreement that they will not be used in the current or any subsequent litigation between the same or related parties. That contract would give way to the circumstances identified in Robert Walker LJ's eight exceptions if any were relevant. As I say, none of them are relevant to this application.

It is correct in my judgment to regard the protection as extending to subsequent litigation because otherwise on the one hand the public policy recognised by Lord Griffiths and other judges and on the other hand the expectation of the parties would not be fulfilled but rather would be subverted. The position may perhaps be different in practice between two parties who are brought together for example by the circumstances of a road accident and may never have anything else to do with each other, but the holders of patents in related areas, whether or not they are to be regarded as competitors, may well, through themselves or their licensees, come up against each other in a number of different commercial circumstances giving rise, not only among the litigation-prone, to several different disputes over time, such that it cannot be assumed that one piece of litigation is the last there will ever be.

I do not regard **Stretton v. Stubbs**, on the exiguous information available as to its facts and the basis of the decision, as binding me to hold, contrary to my assessment of the facts on the material before me, that the protection is limited to the disputes which have already arisen at the time of the particular communications in question. Thus the fact that the particular dispute at issue in the United States litigation had not yet arisen does not seem to me a sufficient reason for saying that protection does not extend to the use of communications in relation to that litigation. I do not consider that Lord Griffiths' reference to "subsequent litigation connected with the same subject matter" is a reason for limiting the protection to disputes about the validity or

infringement of the patents in issue in the earlier litigation. He was speaking by reference to the facts of the case in point and not defining exhaustively the scope of the protection.

Neuberger J's reference to contemplated litigation seems to me to give some support for my wider view of the contract in this case. It seems to me likely that the parties contemplated that there might be other future litigation, though they would not of course have foreseen the particular dispute which is now at issue in the United States proceedings.

I do not say that it will always be the case that protection will apply to all subsequent litigation but in the present instance, having regard to the nature of the business and of the rival interests of the parties, it seems to me probable that it would be found to extend so far, subject of course to Robert Walker LJ's eight exceptions.

It is clear from the evidence and from what Mr. Watson said in submission that the use sought to be made of the statements would be by way of admission, that is to say to prove the truth of the facts stated, so the matter would in my judgment be within the scope of the protection of the rule as analysed by Hoffman LJ in Muller.

Mr. Watson submitted that even if I considered this to be the case or the likely result, I should not grant an injunction restraining the use of the documents in the United States proceedings but should leave that as a question of evidence and to some extent a question of public policy to be decided by that court. I will come back to that question when I have considered briefly the two express agreements.

Protection sought under the confidential settlement agreement

I have read clause 8.1 on which this issue turns. The defendants wish in particular to rely on an affidavit sworn by Mr. Instance in the United Kingdom proceedings which were settled by this agreement. They also say that any protection has been waived. The scope of clause 8.1 is very wide, concerning any disclosure of or comment on either the terms of the agreement itself or any matters relating to or arising from the two patent actions. Clearly an affidavit sworn in one of the actions is a matter arising from that action.

Mr. Watson's main point is to rely on the exception as regards an obligation to disclose the protected matter in legal proceedings or pursuant to a duty owed by any party or their professional advisers to make such disclosure. There is no evidence before me of any duty of disclosure other than the obligation which is said to arise on the F-A-F parties in the US proceedings in response to Moss Printing's disclosure request. I will limit myself to this suggested obligation. There is scope for some dispute of fact on this matter, especially as to the scope of obligations of disclosure under Illinois law, which of course in an English court is a question of fact although a rather special one. However, it seems to me that on the evidence before me the probability is that the F-A-F parties were not under any obligation to disclose this protected material in pursuance of Moss Printing's request. I can see that if it is nicely debatable whether some document may be protected it may be that a party does not have to fight the point tooth and nail before disclosing it and can in such circumstances be regarded as disclosing it pursuant to an obligation. Here however it is plain and accepted that the material is *prima facie* privileged and not disclosable. In the light of F-A-F's response to the disclosure request it *seems* to me that whereas they clearly could and should have refused to disclose this as privileged, they more or less jumped at the opportunity to get this material out into the open. They justified that on the basis of a waiver by Moss Printing. Since however Moss Printing was not itself the holder of the documents until then and not within the scope of the agreement it could not by itself waive the privilege. Nor, on the material before me, does it seem likely that a request in general terms such as was issued on behalf of Moss Printing, prefaced by the usual cautions about nondisclosable material, could be regarded as obliging F-A-F to disclose matters which would not otherwise be disclosable. I therefore regard Mr. Watson's case on the exceptions to clause 8.1 as not likely to succeed at a trial if one were to take place.

He has a separate point on waiver based upon paragraph 11 of an affidavit sworn by Mr. Instance in the United States proceedings. This contains two sentences, each of which is said to be a breach of clause 8.1 so that he can no longer enforce it against Denny. I do not regard that point as likely to succeed on the facts. Having regard to the length of this judgment and the time constraints, I say no more about it.

For the purposes of the application before me, I will proceed on the basis that the claimants are a good deal more likely than not to be able to show that the use in the United States proceedings of material arising in the course of the 1991 and 1992 patent actions, including the without prejudice letters and the affidavit, would be a breach of clause 8.1 of the settlement agreement.

The mediation agreement

I have quoted the relevant passages. Again, the scope of clause 16 of the model procedure is wide with its phrase "produced for or arising in relation to the mediation".

A particular question is whether that covers communications passing between the parties after they had agreed to try mediation in July 1996 and in particular after they had started to discuss the position with the eventual mediator in September 1996 but before they had signed the mediation agreement. The particular document at issue is the confidential but not without prejudice letter dated 26th September 1996. Given that embarking on mediation is a consensual process which may well, as it did in this case, involve quite lengthy discussion before an agreement is reached for mediation, let alone any ultimate settlement agreement, it seems to me that it would be natural to read the phrase: "arising in relation to the mediation" as not being limited to things done after the signature of the mediation agreement. Mediation is defined as the attempt to settle the dispute by mediation. The process of getting to entry into the mediation agreement is itself, albeit at a preliminary stage, an attempt to settle the dispute by mediation. No doubt in practice all or most discussions at such a stage will be on a without prejudice basis. The provision in question forms part of CEDR's model mediation procedure which I imagine was in the hands of the parties from, at the latest, the middle of September 1996 and would in any event have been available to them from the moment that mediation was being considered.

In that context it seems to me right to regard communications preceding the mediation agreement that during the discussions which led to it as being within the scope of the confidentiality clause. I would regard the use of such material for the United States proceedings as being a collateral or ulterior purpose and therefore in breach of the clause.

Mr. Watson pointed to the limited scope of clause 17 as conferring by agreement privilege only in relation to any litigation or arbitration connected with the Dispute. He relied on the fact that that protection is therefore limited. If however the point is covered by clause 16 it matters not for the present purposes whether or not it is covered by clause 17.

Accordingly, I proceed on the basis that it is probable at least that the use of the 26th September 1996 letter and other documents produced for or arising in the course of otherwise in relation to the mediation for the United States proceedings would be a breach of the mediation agreement.

Should the question of restraints on the use of the documents be left to the United States court?

Mr. Watson submitted that it would be more appropriate to leave it to the United States court to decide what use, if any, could be made of the documents in its proceedings by the F-A-F parties. I note that since Denny Bros. Is said not to be before the United States court, that point does not extend to preventing use by it. Of course, what is urgent is the United States proceedings and therefore what is crucial is the position of F-A-F.

A somewhat similar point arose in **Bourns v. Raychem** 1999 F.S.R. 641, also reported at 1999, 3 A.E.R. 154. There the documents subject to legal professional privilege had been disclosed by Bourns to Raychem in connection with the taxation of costs of litigation successfully concluded in favour of Bourns in England. Those documents were seen by Raychem, by its English solicitors in the litigation and also by US attorneys acting for it in parallel litigation in the United States. Raychem wanted to use the documents for the purposes of that litigation. The documents were clearly subject to the implied undertaking as regards documents produced under the compulsion of discovery. Any waiver of the legal professional privilege was held to be limited to the taxation proceedings.

Aldous LJ giving the leading judgment in the Court of Appeal held that Raychem could not use the documents. He considered in a passage at 1999 F.S.R. 677 to 679 the submission that it was wrong for the English court to grant an injunction affecting the use which may be made in the United States courts of documents which might under the law of the relevant jurisdiction in the United States be admissible and disclosable. I have in mind the whole passage but I will read only part of it as follows at page 678 to 679: "Infringement of US rules and practice are for the US courts upon information available to the US courts. That does not mean that information obtained under conditions of confidence in another jurisdiction should be used. That is, I believe, supported by considering the case from an English perspective, but reversing the facts so that there was privileged disclosure in the US and a failure to disclose in this country contrary to law and

practice. Would the English court believe it right that the US court should lift the privilege in the US so that the documents could be used in the English Court? I think not. The English courts would expect the US court to uphold US law. Whether or not there had been a breach of English Law and practice would be a matter for the English court.

"I appreciate the difficulty that Raychem's US lawyers perceive themselves to be in. It is of Raychem's making. It disclosed the documents to them when it must have known that they were by their nature privileged. It followed that if the privilege was maintained, then the lawyers would be placed in difficulty. A person who is offered information subject to limitations as to use has an option; he can either refuse the offer or accept it subject to the limitations. If he chooses the latter, it is up to him to decide how he abides by the limitations. In my view the injunction granted ensures that Raychem and its advisers do abide by the limitations they are deemed to have accepted."

If I am right in the conclusions that I have expressed in relation to the Without Prejudice Material, the Settlement Agreement Material and the Mediation Agreement Material, it would be a breach of contract for the F-A-F parties to use these documents for the purposes of the United States litigation. The two express agreements are clearly governed by English law. It seems to me that the question of whether the without prejudice communications are governed by an agreement limiting their disclosure is also a question of English law. I do not doubt, indeed it is expressly stated by Miss Danilunas, that the negotiations related to issues which had arisen or might arise in relation to patent protection outside the jurisdiction of this court. Since the only actual litigation was in the English courts from 1991 until the moment when the United States proceedings were commenced in July of this year, I can and should proceed on the basis that a major concern, even if not the only or conceivably the primary concern, was the settlement of the English litigation. It must at least be very strongly arguable that the question of whether such negotiations took place under the aegis of a contract such as I have described is a question of English law.

Having come to the conclusion that what the F-A-F companies wish and intend to do is, for the purposes of the interim application, at least very likely to be found at any eventual trial to be a breach of one or more contractual obligations governed by English law, it seems to me that the right course is indeed to grant an injunction restraining the acts which on that basis would be in breach of contract.

Bourns v. Raychem seems to me to support that, even though the source of the protection of the documents was different. The rationale for the two forms of the protection, however, is similar in that each is aimed at encouraging frankness, one in discovery and the other in negotiations, while protecting parties against unintended wider adverse consequences through the use of the documents for an ulterior and collateral purpose.

Mr. Watson raised a question as to the scope of the protection. Clearly things may have been mentioned in a without prejudice document or communication which are also provable by reference to open material. All the injunction will do is constrain the defendants as regards the use of the documents themselves and the other protected material. If a fact can be proved from other unrestricted material it matters not that it features in the protected material as well.

Subject therefore to any submissions as to the precise terms of the order, I propose to grant injunctions as sought until trial or further order in the meantime.