



Précis Paper

Inducing Breach of Contract

A discussion about the recent decision of *Sealed Air Australia Pty Limited v Aus-Lid Enterprises Pty Ltd* (2020) FCA 29.

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Inducing Breach of Contract

In this edition of BenchTV, Gregory Drew (Barrister, Sydney) and Fiona McNeil (Barrister, Sydney) discuss A discussion about the recent decision of *Sealed Air Australia Pty Limited v Aus-Lid Enterprises Pty Ltd* (2020) FCA 29.

Factual background

1. Aus-Lid held a patent for a yogurt lid which was described as a combo-lid. Aus-Lid granted Sealed Air an irrevocable sub licence to manufacture and distribute the combo-lid. From around 2012 Sealed Air was the established supplier of the lid to Chobani and developed a valuable business relationship with that entity.
2. In around May 2014, a version made by Visy appeared on the market which was virtually identical. Following that there was a noticeable reduction in the ordering and supply by Chobani from Sealed Air which ceased completely in March 2015.
3. From December to July 2014, repeated formal warnings were given to both Aus-Lid and Visy by way of cease and desist letters by Sealed Air. Nevertheless, Visy continued to manufacture and supply the combo-lid claiming it had been granted the requisite rights by Aus-Lid.
4. Proceedings were originally commenced under the *Patents Act* 1990 (Cth) but were subsequently re-formulated in contract and tort.
5. Visy asserted that it was entitled to manufacture and supply the combo-lids and to continue to do so. Sealed Air was ultimately successful with Aus-Lid being found liable for a breach of contract; however, the case was really concerned with Visy's liability in tort for inducing those breaches of contract.

Inducing breach of contract

6. The breach in contract was reasonably obvious, the licence contained provisions that Aus-Lid would not grant any rights to a third party nor would it interfere with Sealed Air's enjoyment of its rights under the license. Nevertheless, Aus-Lid purported to grant Visy the right to manufacture and supply the combo lid to Chobani in breach of those provisions
7. Default judgement was entered against Aus-Lid in May 2018 prior to the final hearing. The final hearing therefore, was focused almost entirely on whether Visy was liable for inducing Aus-Lid's breaches of contract.

Essential elements of the tort of inducing breach of contract

8. In order to succeed in its claim for damages in tort for inducement of breach of contract, Sealed Air was required to establish the following matters
 - a. The existence of a subsisting contract; in this case the patent licensing agreement;
 - b. That there was a breach of contract and in this case, it was the purported grants of rights to Visy;
 - c. Knowledge, that is that Visy knew of the contract and that Aus-Lid's granting third party rights would comprise a breach;
 - d. Intention, that is that Visy intended and in fact did, induce Aus-Lid to breach the contract in that manner;
 - e. Damages, that is that the breach of contract caused Sealed Air to suffer loss or damage.
9. The central issue in this case was whether Visy had sufficient knowledge of the contract and the breach to satisfy the element of intention and further, whether the damages suffered by Sealed Air were causally related to the breach and the quantum of those damages.
10. Actual knowledge would ordinarily be sufficient to ground intention, however when knowledge rises to the level of reckless indifference or wilful blindness, the question of intention will be one determined in all the circumstances of the particular case. It will be a good defence if the defendant can establish that it held a belief, that reasonably entertained, there was no such contract or breach.
11. In the case of *Allstate Life Insurance Co v Australia and New Zealand Banking Group Ltd* (No 33) [1996] FCA 127, Justice Lindgren emphasised that a person's knowledge that what he is inducing will constitute a breach of contract and his intention to induce a breach of contract by what he is doing refer to one in the same thing.

Wilful blindness or reckless indifference

12. It was found in *Allstate Life Insurance Co v Australia and New Zealand Banking Group Ltd* (No 33) [1996] FCA 127 that although reckless indifference and wilful blindness are not synonymous with intention or knowledge, they may in the matrix of facts in a particular case contribute to give rise to a finding of intention or knowledge.
13. Ignorance of the precise terms of the contract is not enough to show absence of intent to procure its breach. Intention will be made out where a defendant is recklessly indifferent to the terms of the contract. However, negligence or lack of reasonable care is not sufficient.
14. In *Keller v LED Technologies Pty Ltd* [2010] FCAFC 55, the Full Court considered the circumstances in which wilful blindness or reckless indifference might ground a finding of intention.

15. Willful blindness was said to connote a conscious decision not to enquire into the existence of a fact in case they discovered a disagreeable truth.
16. Reckless indifference arises where a defendant, faced with knowledge of at least a substantial prospect of breach proceeds not caring whether or not a breach occurs.
17. The defendant cannot, by claiming ignorance of the actual terms of the contract, escape a conclusion that he intended to induce a breach of contract unless he had reasonable grounds for believing that the contract did not contain the term relied on. Whether such a belief is held is to be assessed by reference to a reasonable person in the position of the defendant and in this case, by reference to the conduct that may be expected of a qualified and experienced solicitor in a position of Visy's inhouse counsel when faced with the information that he had been given.
18. Visy did not dispute that it knew that there was a contract, it said however that it was not confident that it knew the terms of the contract and it had reason to believe that the contract had been repudiated. However, the Court did not accept that version of event on account of the following:
 - a. the repeated warning letters sent to Visy by the solicitor's for Sealed Air had put Visy on notice that its continued manufacture and supply of the combo-lid involved a breach of contract by Aus-Lid;
 - b. Visy's continued payment of royalties for its continued manufacture and supply comprised both an inducement to breach and an actionable interference on Visy's part with Aus-Lid's contractual obligations to Sealed Air;
 - c. The Court was not persuaded that Visy's inhouse counsel, as an experienced commercial solicitor had a genuine belief, on reasonable grounds that the contract had been repudiated and
 - d. Even if contrary to that finding, Visy did not have actual knowledge it was wilfully blind or recklessly indifferent to the fact that Aus Lid's grant of rights to Visy meant that it was in breach of its contract with Sealed Air

Causation and damages

19. In the matter of *Fightvision Pty Ltd v Onisforou* [1999] NSWCA 323; 47 NSWLR 473, the Court of Appeal rejected an argument that damages for inducing breach of contract cannot be recovered if the contract breaker would in any event and without the inducement not have performed the contract. Any award of damages must seek to put the plaintiff in the position that it would have been were it not for the breach of contract.
20. Sealed Air was therefore compensated for the estimated loss of profits that it would otherwise have earned running from the time it first became aware of the contract and the prospect of breach

Significant Takeaways

21. In the context of intellectual property, it demonstrates the importance of looking beyond the relevant statutory scheme and to consider other causes of action or remedies that may be available. For example, in this case, although there was controversy as to whether the licencing agreement satisfied the technical criteria for an exclusive licence in terms of the *Patent Act*, it nevertheless provided a proper foundation for remedies in contract and tort.
22. The case is also important as it explores what knowledge of the contract and the breach will be sufficient to demonstrate the requisite intention to procure or induce that breach. It also provides a warning to inhouse counsel to ensure that their professional legal input is objectively balanced against the commercial imperatives.

Nature of evidence before the court

23. Contractual dealings between Sealed Air and Aus-Lid, such as the patent licenses and also the supply agreements between Sealed Air and Chobani were put before the court.
24. The circumstances of how the relationship between Visy and Chobani had come into being and Visy's involvement in securing that business was ultimately revealed by exchanges of emails between Visy, Aus-Lid and Sealed Air
25. Sealed Air had also communicated several cease and desist letters which set out the terms of the sublicense and put Visy on notice that it was an exclusive license.
26. Visy disclaimed that based on what it had been told by Aus-Lid and also claimed that it had not sighted a copy of the licencing agreement and therefore couldn't be said to know what was in it. The Court held that there was no reasonable basis upon which Visy's inhouse counsel could have accepted the assurances from the controlling director of Aus-Lid who on any view demonstrated a lack of understanding of the true position and he could not have relied upon what he was told by Aus-Lid especially in the face of cease and desist letters

Rule in Browne v Dunn

27. The cross examination was going to the state of mind of the in-house counsel for Visy, which required an examination of the materials that had been presented to him and a probing into the veracity of his expressed belief that he was entitled to rely upon what he had been told by the Aus-Lid controlling director.
28. The Court was satisfied that the Rule in *Browne v Dunn* had been complied with, being as it is a rule of fairness that the case has to be put to the witness so that he or she understands precisely what is being put against them. The nature of the pleadings, the opening address, the contradicting evidence that was put to the witness, the manner of

questioning and the skeptical expression in response to his answers gave him the notice he needed to know that his evidence was being directly challenged

Establishing knowledge and intention of a corporate entity

29. It is well established that a corporation can only act through its human agents, such as its directors as per *Tesco Supermarkets Ltd v Nattrass* [1971] UKHL 1. Where there is a corporation with a multiplicity of agents, directors and other employees, it is the aggregate of the knowledge and discerned intentions of those people that is imputed to the corporation as the corporation's knowledge or intention

Visy's lack of awareness

30. Aus-Lid had approached Visy to manufacture the lids for Chobani because it had developed a degree of dissatisfaction with Sealed Air's reluctance to invest in new development of certain attributes that Chobani was looking for. At this time, Visy was aware that Aus-Lid was on the scene however it was not aware of the irrevocable or exclusive nature of the arrangements and so could not fairly be fixed with knowledge of the breach of contract.
31. The situation was that Visy could not be held liable for inducement of the breach in circumstances that it was not aware that a breach was likely to be occurring. However, a couple of months into production after some correspondence with Aus-Lid, Visy was put on notice directly with the cease and desist and warning letters.
32. Prior to acquiring that knowledge, Visy could not have acquired any such intention to induce the breach. However, after it received the first of the warning letters, it was not then entitled to ignore those letters and continue to supply and manufacture the lids in defiance of Sealed Air's contractual entitlements.
33. The court found that there was not an original breach and then subsequently some loss was suffered. It found that there was a continuing breach in the sense that Aus-Lid was continuing to permit the manufacture and supply of the lids by Visy and Visy, in continuing to do so was facilitating that continuing breach and it could not escape liability by claiming that it had originally entered into a supply agreement prior to gaining that knowledge when having gained that knowledge, it continued to pay royalties and to negotiate for formal agreements which would document the nature of the relationship between Visy and Aus-Lid.

Practical significance for legal practitioners

34. The case has relevant significance to practitioners in the area of intellectual property as a reminder to widen their scope of enquiry beyond the relevant statutory scheme.

35. Justice Kenny has made a careful analysis of the leading authorities and explained with considerable care how each of the elements should be addressed and the evidence required to prove them. The case consolidates the authorities into a coherent survey of the decisions that one would need to bear in mind in relation to causes of action of this kind, especially insofar as knowledge or intention is concerned but also in relation to damages and the causal link between the inducement to breach, the breach and the subsequent losses.

BIOGRAPHY

Gregory Drew

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Greg practises primarily in the areas of commercial equity, financial services (managed investment schemes and superannuation) including substantial investor class actions, insurance (life and investment policies, D&O and PI) and corporations law. He has appeared as counsel in the High Court of Australia, Federal Court of Australia, NSW Court of Appeal, NSW & Victorian Supreme Courts and NSW District and Local Courts.

Greg also has substantial experience as a company director and business executive. His qualifications include an LLB (1st Hons and University Medal) and Master of Business in Finance.

Fiona McNeil

Barrister, 5 Selborne Chambers, Sydney

Fiona was admitted to legal practice in 1998 and was called to the Bar in 2015. Before coming to the Bar, Fiona was General Counsel of Standards Australia Limited. In private practice, she was a Senior Associate at Minter Ellison.

Fiona has a wide ranging commercial litigation practice.

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Focus Case

Sealed Air Australia Pty Limited v Aus-Lid Enterprises Pty Ltd (2020) FCA 29.

Cases

Allstate Life Insurance Co v Australia and New Zealand Banking Group Ltd (No 33) [1996] FCA 127

Keller v LED Technologies Pty Ltd [2010] FCAFC 55

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Browne v Dunn (1893) 6 R 67

Tesco Supermarkets Ltd v Nattrass [1971] UKHL 1

Legislation

Patents Act 1990 (Cth)

