Neutral Citation Number: [2019] EWHC 1086 (Ch)

Case No: HC-2017-000482

IN THE HIGH COURT OF JUSTICE
BUSINESS AND PROPERTY COURTS
INTELLECTUAL PROPERTY

Royal Courts of Justice, Rolls Building
Fetter Lane, London, EC4A 1NL

Date: 12th April 2019

Before :

Mr Justice Birss

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Between :

Invista Textiles (UK) Limited & Invista Technologies SARL v	**Claimants**
- and -	
Adriana Botes & Achuthanunni Chokkathukalam & Changlin Chen & Viderabio Limited & Videra Services Limited	**Defendants**

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Sue Prevezer QC, Quentin Cregan (instructed by **Quinn Emmanuel**) for the **Claimants**
Adrian De Froment (instructed by **Virtuoso Legal**) for the **Defendants**

Hearing dates: 10th & 12th April 2019

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JUDGMENT

MR JUSTICE BIRSS Friday, 12th April 2019

(9.30 am)

Ruling by **MR JUSTICE BIRSS**

1. On 20 March 2019, I gave oral judgment on costs in this action following the main judgment which is at [2019] EWHC 58 (Ch). The trial was in October of 2018. The parties were very far apart on costs. Indeed it was and has been plain since before the trial that the real dispute between the parties was about costs, at least by the time the matter came to trial. I will not rehearse the history of this case; it is set out in my previous costs judgment on 20th March and in the trial judgment.

2. The conclusions in the costs judgment on 20 March were: (i) on the question of who won, who was the overall winner, the answer was the defendants; (ii) that the claimants had not obtained a result better than the terms of the Part 36 offer the claimants had made in June 2018; and, (iii) that the right order overall was an order that the claimants pay the defendants' costs but excluding a sum reflecting the percentage of the defendants' costs associated with the consent order and disclosure, in other words the documents process. That produced an order that the claimants pay the defendants 71% of the defendants' assessed costs.

3. Once the judgment was given, counsel for Invista rose seeking permission to appeal a point of law relating to the Part 36 offer. This surprised me because the submission on what the law was accorded with what I thought the law was and the law I thought I had applied in the judgment just given. It quickly became apparent that the problem was not one of law but one of fact. The judgment I had given proceeded on one footing as to the facts but counsel's submission was that the facts were different. It was not possible to resolve that at the time and I decided to adjourn the matter in order to get to the bottom of the point of fact and then, depending on what happened, reconsider part or all of the judgment already given. Taking this course is within the court's jurisdiction since no costs order had actually been drawn up.

4. I received further written submissions which dealt with the matter in depth as I had asked. I had hoped it would only be necessary to hear fairly brief submissions but in fact it was more than that. Nevertheless in the end the picture was clear. It is now clear to me that my judgment on 20 March was in error on a point of fact; I am quite prepared to accept that that is neither party's fault that the error was made and that nothing they ever said was inaccurate. That is not the issue.

5. The issue is this: the Part 36 offer invited the defendants to agree to the delivery up or deletion of documents in a schedule. There were 1367 documents in that schedule. That may seem like a lot but then there were over 7000 documents in issue. In the first costs judgment, I said that although these documents were the subject of admissions, many of them were on a non-admission basis. In other words the defendants were prepared to treat them as Invista Material and therefore to be delivered up or destroyed but without admission as to their status. I also said that there were 470 documents which were disputed at the time of the Part 36 offer, at the time it was made, and that the court had only ruled in Invista's favour on 185 of them. Both of those statements are wrong. They matter because they were the basis of my decision that the claimants had not achieved a more advantageous outcome than the Part 36 offer which is the threshold issue under CPR Part 36, Rule 36.17(1)(b).

6. What the facts actually are is as follows. Every single document in the schedule to the Part 36 offer was completely admitted by an admission made by the defendants in July 2018. When I say "completed admitted" I mean admitted without reservation. Most of the 1367 documents are within the 1474 NACP documents recorded in paragraph 28 of the main judgment. The NACP documents were effectively a residue of documents from the total of 7767 documents found and in issue at least at one stage. Starting from the 7767, 5882 of them were in the Chen library (see judgment paragraph 20). That left 1885 (paragraph 21). From there to paragraph 27, the

judgment classifies 411 documents in various ways and that left 1474 documents and I describe them as follows in paragraph 28:

> "28. That leaves 1474 documents (=1490-16). These are all documents that the defendants have admitted are Invista Material (and now also Company Property). Invista's position as I understand it is that because these are admitted to [be] Company Property, no issue arises in relation to them. I will refer to documents in this class as NACP documents for 'No issue Admitted Company Property' documents."

7. Importantly, as paragraph 28 made clear, no issue arose in relation to those.

8. The judgment then looked at the body of documents in a different way based on whose possession they were in. It included addressing the NACP documents. That was not because the NACP documents were in issue but as a cross-check to make sure that the analysis was complete. At the end of the process was paragraph 37 which says as follows:

> "37. Pulling together the NACP documents, the 12 from Dr Botes were all live, level 1 documents, the 5 from Dr Chokkathukalam again were all live, level 1, documents and 1457 from Dr Chen were at various levels. Of Dr Chen's 1457 NACP documents, 9 were live, 99 were in the recycle bin (level 2) and 1349 were deleted to level 3. Of those 1349, 292 of them were deleted after his employment ended."

9. The remainder of the documents in the Part 36 schedule were a number of documents on a USB stick of Dr Botes referred to as "device VL30". The number may be 162 but the precise number does not matter. Those were also admitted to be Company Property (see judgment paragraph 21).

10. So all of the 1367 in the Part 36 schedule were admitted and were acknowledged to be admitted in the judgment. That is why, for example, when the judgment comes to deal with Company Property in the section starting at paragraph 191, at paragraph 194 the documents to be considered are listed from (a) to~(e). None of those (a) to (e) are in the Part 36 schedule. Therefore, my previous costs judgment was wrong to say that any of them were documents which the defendants were prepared to treat as Invista Material and therefore to be delivered up but without admission as to their status.

11. It was also wrong to say that the court only ruled in Invista's favour on 185 out of the 470 disputed documents at the time the offer was made. It may well be my fault for asking questions on a wrong basis, of thinking that the Part 36 schedule included documents which were being treated as Invista Material on a non-admission basis. However a further confusing aspect of this case -- and I am quite prepared to shoulder my share of the blame for it -- is a question about which documents the judgment is actually concerned with. In preparing the judgment, what I thought I was doing was addressing only issues arising from documents which were not admitted, hence paragraph 194.

12. It is true to say that one can infer from the conclusions of the judgment what the status would have been about documents which were admitted but that is a different matter. An example of the confusion can be seen in the spreadsheets each party put forward to address the status and fate of all the Part 36 documents for the purposes of assessing costs. The claimants' spreadsheet has a column, which is in fact column 14, under the rubric "Findings in judgment applying to the documents", and then at column 14 itself that column is named "Breach of clause 3 found in judgment in respect of document". Then there is a series of Yeses and Nos. Actually the Nos are just blanks. The judgment did not make a finding of a breach of any of the documents in the Part 36 schedule because they were all admitted. It is true that one can infer what the finding would have been from the findings in the judgment but that is not exactly the same thing. The reason it matters is because in terms of the "Yeses" and "Nos" in column 14, a large number of these are "Nos" and so one might be forgiven for thinking that the claim had failed in respect of those documents and yet they were admitted.

13. Crucially, a further aspect which makes this case unusual is the second consent order. It had already been made before the admissions were made and it remained and remains in force. That second consent order means that all the admitted documents were always going to be delivered up or destroyed. There is no need for an order made after judgment to achieve that result.

Similar confusion is caused by the fact that, according to both parties, schedule B to the order made after judgment tracks the same "Yeses" and "Nos" as column 14 of the claimants' spreadsheet. I must say I thought schedule B did not do that; I am not suggesting that I think the parties are wrong about what is in schedule B, I am sure it does, and I am not going to reopen that now. This is where the 185 figure comes from. This figure was the documents which had a "Yes" in the claimants' column 14 but were disputed documents at the time the Part 36 offer was made, at least on the claimants' case, but were then subsequently admitted well before trial. This is why I thought the collection as a whole must have included non-admitted documents because the judgment was only concerned with non-admitted documents but, anyway, now the position is clear.

14. So the factual basis on which I approached the question whether the claimants had achieved a more favourable result than the Part 36 offer was false and that part of the decision cannot stand. What is to be done? Should the whole judgment be reconsidered or only part? Clearly the Part 36 offer part of the judgment cannot stand. However, in my judgment, the ruling on who was the winner, which I approached separately from the Part 36 question, remains pertinent and is not falsified by the mistake I made. However, the overall costs consequences cannot be determined until I have decided the Part 36 offer, both in terms of the offer itself and its consequences and also in terms of conduct generally.

15. I now turn to consider those issues. First: have the claimants achieved a more advantageous position than the Part 36 offer? On one view the answer is plainly yes. By July 2018 all the documents in the Part 36 schedule were admitted so at least at that stage the claimants had achieved as much as the Part 36 offer. That is the point of law which counsel referred to when I gave my previous costs judgment. There is authority that one must take admissions into account in assessing a Part 36 offer. For what it is worth I never thought otherwise. That proposition is based on ***Littlestone v Macleish*** [2016] EWCA Civ. 127, Briggs LJ, paragraph 23 to 25,

followed in ***Gamal v Synergy*** [2018] EWCA Civ. 210. Although those cases were focused on issues arising from payments on account, the principle they reflect is that what has been admitted has to be taken into account.

16. Now in fact further documents were also admitted at the same time in July 2018. A total of 1598 documents were admitted on 20 July and that total includes all of the 1367 in the Part 36 schedule and roughly 200 further documents. So by July 2018 the claimants had achieved a more advantageous position than what had been offered in the Part 36 offer. Looked at this way, from now on it could not lose. It might go to trial and gain no more, assuming the admissions were not undermined in some way, which they never were, but it could not do any worse.
17. As a result of the trial, what actually happened was this: although the claimants lost on major issues they did win some more documents, such as parts of the Chen library, although not all the documents that were in issue. They also did win some other causes of action which, in my judgment, were minor but all the same they were victories for the claimants.
18. The defendants submit that this is the wrong approach. They argue that in order to examine the question arising under CPR Part 36.17(1)(b), whether a judgment against the defendants is at least as advantageous to the claimants as the claimants' proposals in the Part 36 offer, it is necessary to look at all the circumstances. In particular they say that the reasoning goes as follows: when one looks at the outcome of the trial, this gave a public vindication to the defendants' position on important issues. Importantly, the predominant claim which was for misuse of confidence was dismissed altogether. Other significant causes of action also failed such as the claim for procuring breach of contract by SilicoLife. A major part of the case on Company Property also failed in relation to documents deleted before termination of the employment. I refer to my previous costs judgment for any further detail on those matters.

19. The achievement of those prizes for the defendants or, if you like, the failure by the claimants to deprive the defendants of those prizes, is a result which is a less advantageous result for the claimants than the proposals for the Part 36 offer.

20. These are the defendants' submissions.

21. In my judgment, it must be right that in order to assess the issue under r36.17 (1)(b) it is appropriate to consider all the circumstances. Mind you, having said that, it seems to me the one thing which does need to be left out of account is the costs consequences, otherwise the whole thing becomes circular. I do also see the force in the defendants' point that the public dismissal of important parts of the claimants' case, (albeit not the whole of the claimants' case, such as the claim for breach of duty of fidelity and aspects of the documents case and so on) could be said to be less advantageous to the claimants than what they would have achieved by a settlement reached in July on the basis of the Part 36 offer, leaving costs to one side.

22. However it seems to me that this is not the right approach. The right approach is to focus on the relief actually obtained. Once the claimants had offered in the Part 36 offer to abandon everything claimed except the 1367 documents, for them to then obtain relief for those documents as a result of the admission and for quite a number more, and to win some other minor causes of action at trial is, in a straightforward sense, a more advantageous position in terms of the relief actually sought. The value is inherently unquantifiable but that does not stop it from being more advantageous as long as it is tangible (which it plainly is). Moreover it remains more advantageous even if it is possible to say that some other result, which is different in character and which the defendants did achieve at trial by defeating the claimants, has its own tangible but unquantifiable value for the defendants and a negative value to the claimant.

23. In my judgment, when a claimant has obtained what it sought in a Part 36 offer and achieved something tangible over and above that, it is not the right approach to apply (1)(b) to then seek to weigh against that some other inherently unquantifiable outcome. Within the scheme of Rule

36.17, the right place to take that into account is under subparagraphs (4) and (5) and whether consequences in the rule would be unjust. So I conclude that the claimants have achieved a more advantageous outcome than the Part 36 offer and sub-section (1)(b) applies.

24. Since Rule 36.17(1)(b) is satisfied, I now turn to consider the consequences in subparagraph (4). They apply unless the court considers it unjust to do so. I will not extend the length of this judgment by setting out the whole of Rule 36.17. I also note that sub (5) deals with the considerations to take into account when considering the injustice. The circumstances include a list of factors (a) to (e).

25. I will start with the principles. I remind myself that the purpose of the Part 36 offer is to put the cost risk on the offeree if they fail to accept the offer; *Dutton v Minards* [2015] EWCA Civ. 984 per Lewison LJ, paragraph 39. Furthermore the discretion under subsections (4) and (5) is not unfettered. The party seeking to establish that it would be unjust faces what has been called a formidable obstacle, and I refer to the whole of paragraph 38 of the judgment of Sir Stanley Burnton in ***Webb v Liverpool*** [2016] EWCA Civ. 365. Also I refer to ***Walsh v Singh*** at [2011] EWCA Civ. 80 and paragraphs 6 and 7 of the judgment of Arden LJ. This establishes that the factors in Rule 44.3(4) also fall to be considered in exercising the discretion under 36.17(4). Those are factors such as conduct, the matters on which a party has been successful in part if not in whole and admissible offers not under Part 36.

26. The defendants also referred to cases on offers which were not genuine attempts to settle. These cases were in the context of very high offers. The defendants acknowledged that this case was not one of a very high offer. The defendants contended it was in fact a very low offer. It seems to me that one needs to take care, at least in a case like this, to characterise offers simply as either "very high" or "very low". By "a case like this", I mean a claim with multiple causes of action, some independent and some overlapping, as well as multiple forms of relief sought, again some independent and some overlapping; and furthermore a case in which the majority of

the relief claimed is not financial. The present case is a long way from an action where the only remedy sought is a single total sum of money. Of course such claims for a sum of money are not necessarily simple either since a sum can be made of different components justified in different ways, but at least one has a single scale on which to measure the outcome. This case is a long way from that.

27. In a money case where all the relief aside from costs is a single sum, if the defendant has offered nothing, then a very low offer from the claimant in financial terms no doubt will almost always be a genuine offer to settle. However as I say that is a long way from the facts of this case.

28. The defendants contend that it would be unjust to make any of the orders in subparagraph (4). The defendants make a general point under subparagraph (5) and also focus on subparagraph 5(e) and contend that the Part 36 offer was not a genuine offer to settle. The fundamental reason why not is because of the costs consequences which were built into it.

29. Invista contends that the consequences would not be unjust and that the offer was not a not genuine offer to settle (to put it the other way around, it was a genuine offer to settle) and none of the factors, individually or together, make it so. The offer was an appropriate offer. Of course it was intended to protect Invista's position on costs, but that is what Part 36 is for.

30. Invista submits that the costs consequences were mandated by the rule and they cannot make it unjust. Now in principle it seems to me that the fact the costs consequences are mandated by the rule does not mean that they may not be taken into account, either in assessing the injustice question generally or in assessing whether it was a genuine offer to settle. They are as much a part of the offer as are the terms, and I turn to consider the offer.

31. The first issue is about the position before the offer was made. Although at the time of the offer many of the documents in the 1367 were already admitted, some were disputed. The claimants contend 470 of the documents were disputed by that time. The defendants do not accept the claimants' characterisation of which documents were disputed before the offer was made. I will

say I found the claimants' case more credible on this than the defendants', but it is not necessary to examine it in detail or resolve this aspect of the matter because even on the defendants' case there were a substantial number of documents in the 1367 which were disputed at the time the offer was made. Maybe not as many as the claimants say, but nevertheless not a trivial number.

32. I turn to examine the offer as at June 2018. At that stage the parties had been litigating for well over a year. There were many issues in play (see my previous judgment). Substantial costs had already been incurred on those issues entirely aside from the documents. The offer from the claimants was for the 1367 documents to be delivered up or deleted as the only relief and all other claims would come to an end. The only problem with this offer from the defendants' point of view, as the claimants well knew, was costs. To accept the offer, because it was made under Part 36, the defendants would have to pay all the costs to the case up to that date. That included not only the costs relating to documents but all the other costs too, relating to all the other issues. A reasonable litigant and litigation team in the claimants' position will have known when it made that offer that that aspect would make it wholly unacceptable. Now it is also true, since some of the documents are disputed, that the claimants are entitled to say that they wanted to focus on what they say were the important documents and to have them admitted. That is true, but it does not alter the position that the costs aspect would have made the offer unacceptable.

33. It is also relevant to note that the second consent order contained a complete mechanism for dealing with every single document, deleting or delivering up every single one which ought to be dealt with in that way and included its own dispute resolution procedure. Although the claimants blame the defendants for dragging their feet, that order remained in force and remains in force today. I have still never had a satisfactory explanation why the claimants did not press on with the scheme in the second consent order.

34. The fact that the costs were mandated by the Part 36 offer does not help the claimant. A party is not obliged to use Part 36. The reason for doing so is precisely to apply cost pressure as a result

of the prospect of the consequences under Rule 36.17(4). However, an offer could have been made in a letter in a different terms, still without prejudice save as to costs. Of course it can be taken into account at the end albeit it does not attract the same costs consequences.

35. Looking at the offer at the time that it was made, what the offer really represents was an admission of defeat by Invista. In that sense it is quite different from a claimant in a money claim offering to take a low sum when the defendant has never offered anything any higher. Although Invista contend that the listed documents were the result of focusing on what was really important, that needs to be approached with care. It is also true that some were admitted to amount to confidential information as that term is defined in the contract, but the qualification is important because the contract definition is very wide and far wider than a post-termination enforceable obligation of confidence.

36. Given the failure of Invista's post-termination and misuse of confidence case at trial, it is manifest that none of those documents in the Part 36 schedule established any such breach by the defendants. If they had, they would have been relied on at trial. What really happened in this case was that the claimants had brought a hopelessly broad pleaded case against their former employees. They were now by June 2018 running the risk that they would fail to substantiate the claims made in the proceedings or justify the relief sought.

37. During the forensic IT search which the defendants had consented to, the process forensically recovered large numbers of documents which had been deleted while the ex-employees were acting in the course of their employment. They were working at home, which was accepted practice. For this material, there was no breach of contract. While an awful lot of the documents were Invista Material, their forensic recovery did not show a breach of contract. So although in the offer Invista was, for example, giving up its claims for post-termination injunctions, injunctions such as the injunctions to restrain breach of the defendants' equitable

obligations of confidence, the offer expected the defendants to pay the claimants' costs of such claims which had been fought for over a year.

38. Further, it is the public dismissal of that claim at trial which for the defendants was a significant prize in this litigation. As I held above, I do not believe the right approach to Rule 36.17(1)(b) is to take that unquantifiable success into account by weighing it against the unquantifiable success achieved by the claimants in the action. The right place to consider it is here. It is highly material to the question of whether the consequences of Rule 36.17(4) would be unjust.

39. Another factor I take into account in the matter of injustice is the fact that even on the claimants' case that the defendants ought to bear the costs of the action generally because the claimants are the winner, not all the costs prior to the Part 36 offer should be borne by the defendants. As to this point, Invista submitted that the argument was wrong in principle because Part 36 is a complete code and when an offer is not accepted Part 36 only mandates consequences for costs after that date, so it is open to the court to make a different order for costs prior to the Part 36 offer. I believe that is right and that all the consequences in subparagraph (4) relate to costs after the relevant period expired. Mind you, I would have thought, at least in a normal case, that when a claimant has beaten a defendant's Part 36 offer, the costs prior to the Part 36 offer would be likely to fall to be paid by the defendant, although of course the court can make another order.

40. However, none of this means that it is not legitimate when examining the issue of injustice and whether an offer was a genuine offer to settle to observe that even the claimants do not suggest they should be awarded all of their pre-offer costs. These are of course the very costs which would have had to have been paid by the defendants if the Part 36 offer had been accepted. On its own it does not prove the case but it is a factor to take into account and weigh with the other factors. In my judgment in this case it is telling. I also note that the defendants' almost instant reaction to the offer was to explain by email that they were prepared to agree all the documents

and the problem was the costs consequences. As I said, I think that was obvious, but it is not irrelevant that the point was made that way.

41. Looking at it another way, if I stand at June 2018 and ask what would a court have ordered in terms of costs if the outcome of the case had been the same as the terms of that offer, would the costs order have been the defendants paying all or at least the majority of the claimants' costs in those circumstances? The answer is a clear no. That demonstrates why this is very different from a low financial offer in a case purely about a sum of money. In my judgment, this is another factor to take into account.

42. Now, Invista says what the defendants should have done was come back and negotiate such as by offering a drop-hand on costs (that is no order as to costs). Now, after the Part 36 offer was made, as I have said, the defendants did come back and say that the relief was acceptable but not the costs and the parties did exchange further offers. The main point made repeatedly by the claimants is that the claimants offered to drop hands on costs, ie each party would bear its own, and the claimants criticise the defendants for not accepting it. In my judgment, there is no substance to this criticism. The refusal by the defendants to accept that they should shoulder the burden of all their costs of all these proceedings was legitimate in the circumstances and has been vindicated by the judgment.

43. Pulling all this together, I recognise that the hurdle is a formidable one. Nevertheless I find it would be unjust to enforce any of the consequences on the defendants. That is looking at all the circumstances. However, in particular, in my judgment, in the context in which it was made and given its terms, the Part 36 offer itself was not a genuine offer to settle. In fact, if anything, I think the offer has proved to be a barrier to settlement of this dispute because since the offer was made and not accepted and then the admissions were made, the claimants seem to have been approaching this case as if they were entirely protected as to costs.

44. There is finally a loose end: the summary judgment application. After the admission in August 2018 the claimants sought summary judgment in the vacation and came before Arnold J. He dismissed the application, allowed an amendment to the pleadings and directed that the matter should go to trial. The application for judgment was on the issue of breach of contract relating to a list of documents which were the ones that had been admitted in July together with the Chen library documents, although those Chen library documents were then dropped during the application.

45. Now that one can see everything, it is plain that what the claimants were trying to do was engineer a result which they would contend meant that they would achieve more than the Part 36 offer. They is nothing wrong with that in principle. The judge dismissed the application because to decide the question one needed to know what the level of deletion of the documents actually was irrespective of the admission. This approach by Arnold J closely corresponds to column 14 of the spreadsheet. The point is that when I had to decide the Company Property issue, which was about the contract, I held that the documents deleted to level 3 by an employee on their home computer prior to termination and in the course of their employment were not in their possession in the terms of the contract at termination and so there was no breach.

46. Many of the documents in the schedule to the Part 36 offer do fall into that category and so if one applies the findings of the judgment to them then one reaches the conclusion that the claimants have not at all achieved a better result at trial. Putting it another way in column 14 a large number of the documents are marked with a blank which means "No". But I have not taken that approach because the admission means that, pursuant to the second consent order, those documents were always going to be deleted and they will be and that was true before the summary judgment application. So if, which I do not believe is the right way of looking at it, it is necessary for Invista to get the judgment that was sought on the summary judgment application in order to have those documents deleted, then Invista has not achieved that result.

But as I say, I do not believe that is the correct analysis and I have not looked at the matter that way.

47. So I need now to consider what to do about costs. Previously I decided that the Part 36 offer had not been beaten and went on to award the defendants 71% of their costs. Now that I have decided the Part 36 offer has been beaten but it would be unjust to enforce the consequences in 36.17.

48. This does shed a different light on the conduct issues, particularly those after the Part 36 offer, but in the end in my judgment it does not make a material difference to the way I looked at the case before. For the reasons I gave before and the reasons I have just explained, I will order the claimants to pay the defendants 71% of the defendants' assessed costs. That is my decision.