

FEDERAL COURT OF AUSTRALIA

Superior IP International Pty Ltd v Ahearn Fox Patent and Trade Mark

Attorneys [2012] FCA 282

Citation: Superior IP International Pty Ltd v Ahearn Fox Patent and Trade Mark Attorneys [2012] FCA 282

Parties: **SUPERIOR IP INTERNATIONAL PTY LTD ACN 126 853 558 v AHEARN FOX PATENT AND TRADE MARK ATTORNEYS**

File number: QUD 322 of 2011

Judge: **REEVES J**

Date of judgment: 23 March 2012

Catchwords: **CORPORATIONS** – s 459G *Corporations Act 2001* (Cth) – application to set aside statutory demand – consideration of principles on “genuine dispute” under s 459H – whether “genuine dispute” established – Court not to consider issues of credit – Court not to consider issues of merit – amount of statutory demand less than statutory minimum in s 459E

PRACTICE AND PROCEDURE – *Civil Dispute Resolution Act 2011* (Cth) – genuine steps statement to be filed by applicant and respondent – lawyer’s duty to assist client in preparing genuine steps statement – failure to comply with obligations – consideration of consequences

PRACTICE AND PROCEDURE – Pt VB *Federal Court of Australia Act 1976* (Cth) – case management in civil proceedings – parties must conduct proceedings in a way that is consistent with the overarching purpose – parties to conduct proceedings for just resolution of disputes according to law and as quickly, inexpensively and efficiently as possible – failure to comply with obligations – consideration of consequences

Legislation: *Civil Dispute Resolution Act 2011* (Cth)
Corporations Act 2001 (Cth)
Evidence Act 1995 (Cth)
Federal Court of Australia Act 1976 (Cth)
Federal Court Rules 2011

Cases cited: *Eyota Pty Ltd v Hanave Pty Ltd* (1994) 12 ACSR 785
Spencer Constructions Pty Ltd v G & M Aldridge Pty Ltd
(1997) 76 FCR 452

Date of hearing: 31 October 2011

Date of last submissions: 2 December 2011

Place: Brisbane

Division: GENERAL DIVISION

Category: Catchwords

Number of paragraphs: 47

Counsel for the Plaintiff: Mr JR Webb

Solicitor for the Defendant: Mr LW Fox of blueFox Legal

**IN THE FEDERAL COURT OF AUSTRALIA
QUEENSLAND DISTRICT REGISTRY
GENERAL DIVISION**

QUD 322 of 2011

**BETWEEN: SUPERIOR IP INTERNATIONAL PTY LTD ACN 126 853 558
Plaintiff**

**AND: AHEARN FOX PATENT AND TRADE MARK ATTORNEYS
Defendant**

JUDGE: REEVES J

DATE OF ORDER: 23 MARCH 2012

WHERE MADE: BRISBANE

THE COURT ORDERS THAT:

1. The statutory demand dated 7 September 2011 be set aside.

**IN THE FEDERAL COURT OF AUSTRALIA
QUEENSLAND DISTRICT REGISTRY
GENERAL DIVISION**

QUD 322 of 2011

**BETWEEN: SUPERIOR IP INTERNATIONAL PTY LTD ACN 126 853 558
Plaintiff**

**AND: AHEARN FOX PATENT AND TRADE MARK ATTORNEYS
Defendant**

JUDGE: REEVES J

DATE: 23 MARCH 2012

PLACE: BRISBANE

REASONS FOR JUDGMENT

THE APPLICATION AND THE VOLUMINOUS SUPPORTING AFFIDAVIT MATERIAL

1 Superior IP International Pty Ltd (Superior IP) has applied under s 459E(2)(e) of the *Corporations Act 2001* (Cth) (the Act) to set aside a statutory demand served on it by Daniel Patrick Fox as trustee of the Ahearn Fox Unit Trust trading as Ahearn Fox Patent and Trade Mark Attorneys (Ahearn Fox). The fact that s 459E was mistakenly identified as the apposite section (instead of s 459G) provided a harbinger for what was to unfold in this application.

2 The application was adjourned twice by a Registrar prior to coming before me in late 2011, supposedly as a matter of urgency. By about that time, Superior IP had filed more than 300 pages of affidavit material in support of the application. For its part, Ahearn Fox had filed almost 150 pages. With more than 400 pages of affidavit material, one might have thought that there was a very considerable sum of money at stake in this dispute. Not so – it emerged from that affidavit material that the amount of the statutory demand was \$10,706.33, involving nine invoices, most of which were for less than \$1,000 and only one of which was more than the statutory minimum amount of \$2,000.

3 On a closer examination of this voluminous affidavit material, it soon became apparent that the affidavits of both sides were replete with allegations of falsity and untruthfulness on the part of the deponents of the opposite party's affidavits. This material

was all irrelevant. It is well-established that a court will not, except in extreme cases (which this is not), determine issues of credit on an application of this kind: see at [20] and [22] below. Similarly, the affidavit material of both sides sought to canvas the merits of their cases rather than the genuineness of the underlying dispute. As with issues of credit, the merits of the dispute do not fall to be determined in an application under s 459G of the Act. In my view, both of these matters reflected a complete lack of appreciation by the two lawyers concerned as to what it was they had to direct their minds to at the hearing of this application.

THE HEARING – THE ANTITHESIS OF THE OVERARCHING PURPOSE

4 At the commencement of the hearing, having noted that no genuine steps statement had been filed pursuant to the *Civil Dispute Resolution Act 2011* (Cth) (the Civil Dispute Act), I inquired of the two lawyers whether they had made any attempt to try to resolve the dispute, in accordance with the objects of that Act and, one might add, their ethical obligations as lawyers. On being told that there had been no such attempt, I adjourned briefly to allow that to occur. This was to no avail.

5 Given the relatively small amount in dispute, I also attempted to introduce some proportionality into the matter by directing the two lawyers, under s 37N(3) of the *Federal Court of Australia Act 1976* (Cth) (the FCA Act), to notify his respective client how much he intended to charge it in legal fees. In that process, I was informed that Superior IP's lawyer intended to charge \$10,050 and Ahearn Fox's lawyer intended to charge \$8,000. These figures did not include the filing fees of \$2,145 paid by Superior IP. The fact that the total legal and filing fees involved approached twice the amount of the statutory demand still did not deter the clients from their headlong pursuit of this dispute.

6 By about this stage, I had the distinct impression that this dispute had descended into a squabble over who was to pay the costs that had been incurred thus far. Accordingly, I drew the attention of the lawyers to the provisions of Pt VB of the FCA Act and their duties to conduct this litigation having regard to the overarching purpose set out therein. This, too, was to no avail. Finally, bereft of any other means to force the lawyers and their clients to see some sense, I considered I had no option but to proceed to hear the matter.

7 The hearing lasted a full day, a large part of which was taken up with objections to the voluminous affidavit material described above. In keeping with their bellicose approach thus far, when I began to hear those objections, I discovered that there had been no discussion between the two lawyers to attempt to resolve any of them and thereby avoid both their clients' and the Court's resources being wasted on that exercise. To compound this situation even further, during the hearing of those objections it emerged, incredible as it may sound, that neither lawyer appeared to have a copy of the *Federal Court Rules 2011* or the *Evidence Act 1995* (Cth) with him in court. Thus, neither of them could tell me which section or rule he was relying upon to make particular objections.

8 The final travesty came at the end of the day's hearing when, during submissions in reply, the lawyer for Superior IP sought leave to rely upon a large amount of additional material that he had not put forward earlier. When I say "final travesty", I should add that there was a number of other less significant defaults on both sides that I have failed to mention (above) in the interests of brevity.

9 It hardly needs to be said that what I have just described is the absolute antithesis of the overarching purpose of civil practice and procedure set out in s 37M of the FCA Act, viz the just resolution of disputes according to law and as quickly, inexpensively and efficiently as possible. It is not overstating the matter to observe that this is the sort of conduct that brings the legal profession into disrepute, that significantly undermines the efficient disposal of civil litigation and that has the potential to erode public confidence in the administration of justice in this country. I therefore propose to return to this matter when I come to consider the question of costs at the conclusion of these reasons.

10 In the meantime, I will turn to consider whether Superior IP has shown that there is a genuine dispute about the whole, or part, of the debt claimed in Ahearn Fox's statutory demand within the terms of s 459H of the Act. Before going to the affidavit material bearing on this question, I will begin by setting out the factual background to this application and the legal principles that are relevant to its determination.

FACTUAL BACKGROUND

11 As its full title suggests (see at [1] above), Ahearn Fox is a firm of patent and trade mark attorneys. Some years before this current disagreement arose, Superior IP instructed

Ahearn Fox to prosecute an application for a patent for an invention described as “an improved connector for timber”, in Australia, the United States of America, China, various jurisdictions in the European Community, Korea, Brazil and Canada.

12 Over the years up to late 2011, the financial arrangements between Superior IP and Ahearn Fox were conducted on a running account basis. The \$10,706.33 that was claimed in the statutory demand was made up of nine invoices, the details of which are as follows:

Date	Invoice No	Amount
09/03/2011	8343	59.20
28/03/2011	8719	776.60
28/03/2011	8720	1,477.30
27/04/2011	8971	924.31
19/04/2011	8989	583.99
17/05/2011	9113	1,928.57
20/06/2011	9345	3,958.53
28/06/2011	9488	223.43
28/06/2011	9615	<u>774.40</u>
		<u>10,706.33</u>

13 The basic format of each of these invoices was the same. That format is shown in Invoice 8343 as follows:

TAX INVOICE		
ABN: 39784721143		
European Patent Application No. 05774089.6 in the name of Superior IP International Pty Ltd - "IMPROVED CONNECTORS FOR TIMBER" - National Phase of PCT/AU2005/001249 filed 19 August 2005		
PROFESSIONAL FEES		
Description	Amount	GST
To our services in reporting intention to grant, attending to payment of official granting and printing fees; attending to French and German translation of claims; reporting to client	\$1,085.00	\$108.50
DISBURSEMENTS		
Description	Amount	GST
Facsimile Charges (recorded on file)	\$5.00	\$0.50
Printing & Photocopying Charges (recorded on file)	\$16.00	\$1.60
Email Charges (recorded on file)	\$1.00	\$0.10
Overseas Associates Charges - Estimated	\$5,000.00	\$0.00
Agency Fees - Estimated	\$765.00	\$76.50

14 By way of an example, the description of the services rendered for the professional fees claimed in five of the other eight invoices (8719, 8720, 8971, 9488 and 9615) is set out below. The example given is for Invoice No 9615.

To our services in reviewing examination report and checking against corresponding

cases; preparing amended set of claims; preparing and filing response to Examiner's report with amended claims and submissions; reporting to client

15 With three of the invoices (8989, 9113 and 9345), no amount is claimed for professional fees and a different description (but the same for all three) appears in the disbursements section. The following is an example taken from Invoice No 8989:

Overseas Associates Charges – Invoice No. DP-0661230-IN
Agency Fees - Invoice No. DP-0661230-IN

16 In addition to the information appearing on each invoice (above), each invoice was enclosed with a covering letter. With the exception of Invoice 8719, those letters provided further information about the enclosed invoice. The following is an example of the information provided in the covering letter with Invoice 9345:

1. Account Matters

1.1. Further to our letter of 17 May 2011 reporting on account matters, we have received a further debit note from our associates in relation to continued preparation of the responsive amendment to the claims for the application and completing same. Our corresponding invoice is enclosed for your kind attention. If you have any queries please contact us.

17 It should be noted that the balance shown on Invoice No 8343 takes account of a payment of \$7,000 made by Superior IP in August 2011, which Ahearn Fox applied to that invoice, as the oldest invoice. As well, Invoice No 9113 takes account of a credit note reduction of \$1,611.11 Ahearn Fox voluntarily made to this invoice to attempt to remove any dispute about whether the invoices from the US patent attorneys had included charges for extensions to the claims on the US patent application.

18 The disagreement about these invoices came to a head in about August 2011. On 25 August 2011, a meeting was held between representatives of both parties to discuss the issue. What occurred at the meeting is the subject of many of the allegations of falsity and untruthfulness mentioned earlier in these reasons (see at [3] above). Soon after that meeting, Ahearn Fox served the statutory demand. That, in turn, lead to this application.

LEGAL PRINCIPLES

19 The requirement for a “genuine dispute” about the existence of the debt claimed in a statutory demand is set out in s 459H(1)(a) of the Act. If such a dispute exists in relation to

all of the debt, or to so much of it as reduce the amount of it below the statutory minimum amount set out in s 459E, the demand must be set aside.

20 There have been numerous expositions as to what amounts to a “genuine dispute” for the purposes of s 459H of the Act, and the predecessors to that section. One of the more comprehensive and useful (with respect) is that of McLelland CJ in Equity in *Eyota Pty Ltd v Hanave Pty Ltd* (1994) 12 ACSR 785 (*Eyota*) at 787–8 as follows:

It is, however, necessary to consider the meaning of the expression “genuine dispute” where it occurs in s 450H. In my opinion that expression connotes a plausible contention requiring investigation, and raises much the same sort of considerations as the “serious question to be tried” criterion which arises on an application for an interlocutory injunction or for the extension or removal of a caveat. This does not mean that the court must accept uncritically as giving rise to a genuine dispute, every statement in an affidavit “however equivocal, lacking in precision, inconsistent with undisputed contemporary documents or other statements by the same deponent, or inherently improbable in itself, it may be” not having “sufficient prima facie plausibility to merit further investigation as to [its] truth” (cf *Eng Mee Yong v Letchumanan* [1980] AC 331 at 341), or “a patently feeble legal argument or an assertion of facts unsupported by evidence”: cf *South Australia v Wall* (1980) 24 SASR 189 at 194.

But it does mean that, except in such an extreme case, a court required to determine whether there is a genuine dispute should not embark upon an inquiry as to the credit of a witness or a deponent whose evidence is relied on as giving rise to the dispute. There is a clear difference between, on the one hand, determining whether there is a genuine dispute and, on the other hand, determining the merits of, or resolving, such a dispute. In *Mibor Investments* (at 366-7) Hayne J said, after referring to the state of the law prior to the enactment of Div 3 of Pt 5.4 of the Corporations Law, and to the terms of Div 3:

These matters, taken in combination, suggest that at least in most cases, it is not expected that the court will embark upon any extended inquiry in order to determine whether there is a genuine dispute between the parties and certainly will not attempt to weigh the merits of that dispute. All that the legislation requires is that the court conclude that there is a dispute and that it is a genuine dispute.

In *Re Morris Catering (Aust) Pty Ltd* (1993) 11 ACSR 601 at 605 Thomas J said:

There is little doubt that Div 3 ... prescribes a formula that requires the court to assess the position between the parties, and preserve demands where it can be seen that there is no genuine dispute and no sufficient genuine offsetting claim.

That is not to say that the court will examine the merits or settle the dispute. The specified limits of the court’s examination are the ascertainment of whether there is a “genuine dispute” and whether there is a “genuine claim”.

It is often possible to discern the spurious, and to identify mere bluster or assertion. But beyond a perception of genuineness (or the lack of it), the court has no function.

It is not helpful to perceive that one party is more likely than the other to succeed, or that the eventual state of the account between the parties is more likely to be one result than another.

The essential task is relatively simple – to identify the genuine level of a claim (not the likely result of it) and to identify the genuine level of an offsetting claim (not the likely result of it).

21 The Full Court of this Court also reviewed the authorities on s 459H of the Act (including *Eyota* above) in *Spencer Constructions Pty Ltd v G & M Aldridge Pty Ltd* (1997) 76 FCR 452 (at 462–464) and concluded that (at 464):

In our view a “genuine” dispute requires that:

- the dispute be bona fide and truly exist in fact;
- the grounds for alleging the existence of a dispute are real and not spurious, hypothetical, illusory or misconceived.

22 Putting aside an off-setting claim, which does not arise in this matter, it can be seen from these decisions that, in determining whether or not there is a genuine dispute about the debt claimed in a statutory demand, the Court does not conduct a mini trial, or extended inquiry, in relation to the claims and counter-claims being made by the parties, nor does it, except in an extreme case, determine questions of credit. As well, the Court does not determine the merits of the dispute. Instead what the Court is required to do is to look to the material before it to ascertain whether there is a bona fide dispute that truly exists in fact and the grounds for alleging it are not “spurious, hypothetical, illusory or misconceived”.

IS THERE A GENUINE DISPUTE?

23 In his primary affidavit in support of this application, Mr Kevin Roy Smeaton, the managing director of Superior IP, has endeavoured to describe, in summary form, the nature of the dispute that exists by reference to each of the nine invoices (above). In relation to Invoices No 8343, 9488 and 9615, Mr Smeaton has essentially defined the nature of the dispute as a failure on the part of Ahearn Fox to provide particulars of the amount claimed in each of these invoices. On this point, it is appropriate to note that, in his affidavit, Mr Eric William Anderson, a patent attorney employed at Ahearn Fox, has denied that anyone from Superior IP has made any of the requests for particulars of any of these nine invoices as stated in Mr Smeaton’s affidavit. However, as I have already indicated above, this is one of those issues of credit that does not fall to be determined in an application of this kind.

24 Turning then to the particular parts of Mr Smeaton's affidavit that describe the dispute in relation to each of these three invoices, they are as follows:

Invoice 8343 [Superior IP] has requested that detailed particulars of the charges be provided a number of times by telephone regarding the actual costs; the firm has failed to provide any proper particulars. ... the firm has failed to provide any proper particulars which will allow the company to ascertain with any clarity the amount of money due on account of the services provided.

...

Invoice 9488 This invoice does not show detailed particulars of services which the company has requested but were not provided. We were not shown what is on file at the meeting referred to above.

Invoice 9615 [Superior IP] requested particulars of the examination report and copies of the amended set of claims and a copy of the response filed to answer the Examiner's report. The company has never received these, nor was it shown the disbursements said to be on file.

Therefore I say no, or no proper detail, of any alleged services have been provided sufficient to identify and consider the claims of the firm and I further say the question of the claim for debt the subject of the schedule attached to the demand are exaggerated or over stated.

(Emphasis added)

25 In my view, none of these statements establishes the basis for a genuine dispute in relation to the amounts claimed in these three invoices. All Mr Smeaton has done in relation to these invoices is to assert that Superior IP has requested particulars of the amount claimed and that no such particulars have been provided by Ahearn Fox. Beyond this, Mr Smeaton has not provided any factual basis for there being a genuine dispute as to whether the amounts claimed in these invoices are payable. To the contrary, he implies that the amounts may be payable by stating, for example, that: "particulars ... will allow [Superior IP] to ascertain with ... clarity the amount ... due". Elsewhere, he asserts that the amounts claimed are "exaggerated or over stated" without providing any basis in fact for those assertions. It will be noted that none of these statements refers to the issue concerning the US patent attorneys enlarging the patent claims, or to the issue relating to the charges for validation of the patent in the European Community (see at [26] below).

26 The position is a little different in relation to the remaining six invoices. As well as asserting a lack of particulars in relation to all of those invoices, Mr Smeaton has provided some factual information in relation to at least three of them (Invoice Nos 8719, 8720 and 8971) to attempt to establish the existence of a genuine dispute about the amounts claimed in them. That information is as follows:

Invoice 8719 [Superior IP] has requested particulars of this invoice as [it] did request a status report (invoice refers to a “case list”) to be forwarded to [it] and [it] believes the firms (sic) [charges] of approximately one and a half hours time of professional services was not required. ... The firm has failed to provide any detailed particulars.

Invoice 8720 [Superior IP] believes the firms (sic) charges are for approximately three hours of professional services. [Superior IP] gave no instructions and believes this charge relates to the firm US attorney raising an enlargement of claims, which when communicated to [it], the firm was told not to enlarge the claims and simply proceed with the existing twelve claims. The firm has failed to provide any proper particulars.

Invoice 8971 [Superior IP] requested the firm to review and examine some internet websites which give details of the ‘London Agreement’ and European patent statutory charges and other charges related to the validation of patents in England, France and Germany as [Superior IP] was well aware there were no statutory charges for the validation of patents in these jurisdictions since the implementation of the London Agreement in 2008. This was an attempt by [Superior IP] to have the firm change the estimation of validation costs from approximately \$7000.00 to a few hundred dollars which would be an appropriate fee. ... The firm has been requested to provide detailed particulars and has failed to provide any information whatsoever.

(Emphasis added)

27 In relation to the other three invoices (Invoice Nos 8989, 9113 and 9345), Mr Smeaton has made assertions about a lack of particulars similar to those in relation to the three invoices at [24] above. However, with each of these invoices he has added that: “This invoice relates to the US patent application.” In my view, this information provides a link back to the claims he has made in the statement in relation to Invoice No 8720 (at [26] above) about the lack of instructions for the US patent attorneys to enlarge the claims for the US patent application. The summary Mr Smeaton provided in relation to these three invoices is as follows:

Invoice 8989 This invoice relates to the US patent application. The Description section of the invoice is blank. There are no particulars provided whatever (sic). [Superior IP] has repeatedly requested particulars of this invoice and the firm has never provided any information whatsoever.

Invoice 9113 This invoice relates to the US patent application. The description section of the invoice is blank and notwithstanding requests, particulars of this invoice have never been received and one day before issuing the demand herein an email from the firm to [Superior IP] advised a credit note was to issue.

Invoice 9345 This invoice relates to the United States patent application. The description section is blank. [Superior IP] has repeatedly requested particulars of this invoice and the firm has never provided any particulars.

(Emphasis added)

28 While all of these statements in relation to these six invoices (above) are patently lacking in precision and details, nonetheless, I consider that they provide enough information,

albeit barely so, to establish that there exists in fact a bona fide dispute about the amounts claimed in these six invoices. In brief form, that dispute is about whether Superior IP gave the instructions for Ahearn Fox, or through it, the US patent attorneys, to enlarge the claims for the US patent application, or to incur the charges for the validation of the patent in the European Community. Furthermore, on the former, I consider the fact that Ahearn Fox reduced the amount of Invoice No 9113 by \$1,611.11, supports the existence of a genuine dispute in relation to the accounts payable to the US patent attorneys, rather than disposes of it as Ahearn Fox seems to believe it does (see at [17] above).

CONCLUSION – THE STATUTORY CHARGE MUST BE SET ASIDE

29 In summary, the total amount of the six invoices for which I consider a genuine dispute exists (Invoice Nos 8719, 8720, 8971, 8989, 9113 and 9345) is \$9,649.30. Conversely, the total amount of the invoices for which I consider there is no genuine dispute (Invoice Nos 8343, 9488 and 9615) is \$1,057.03. This latter amount is below the statutory minimum amount of \$2,000 set under s 459E of the Act. Accordingly, pursuant to s 459H(3) of the Act, I am obliged to order that Ahearn Fox's statutory demand be set aside. This is what I will order.

CONSIDERATIONS AFFECTING THE COSTS OF THE APPLICATION

30 Since it has been wholly successful in its application, Superior IP would ordinarily be entitled to an order for costs, based on the usual principle that costs follow the event. In addition, during submissions, Superior IP's lawyer foreshadowed an application for indemnity costs. This issue of costs brings me back to the observations I made at the outset of these reasons. A number of considerations related to this costs issue in these proceedings stems from those observations.

31 It is appropriate to begin with the provisions of the Civil Dispute Act. The object of that Act is stated in s 3 as follows:

The object of this Act is to ensure that, as far as possible, people take genuine steps to resolve disputes before certain civil proceedings are instituted.

32 In the pursuit of this object, s 6(1) of the Civil Dispute Act provides that:

An applicant who institutes civil proceedings in an eligible court must file a genuine

steps statement at the time of filing the application.

33 Section 7(1) of the Civil Dispute Act contains similar provisions in relation to a
respondent to a proceeding.

34 The Federal Court of Australia is an “eligible court” under s 5 of the Civil Dispute Act.
It follows that the obligations in Pt 2 of the Civil Dispute Act, which includes ss 6 and 7,
apply to civil proceedings instituted in this Court.

35 Before going to the consequences that flow under the Civil Dispute Act, it is
necessary to mention the exemption to these provisions contained in s 6(3) of that Act. It
provides:

A genuine steps statement need not be filed under subsection (1) in relation to
proceedings that are wholly excluded proceedings.

36 Section 6(4) contains a similar exemption in relation to proceedings that are in part
excluded proceedings, but only in relation to that part of the proceeding.

37 However, an application to set aside a statutory demand under s 459G of the Act is
not an excluded proceeding under Pt 4 of the Civil Dispute Act (ss 15–17). Nor is it under
the Regulations to the Civil Dispute Act: see s 17. I note in passing, that an application to
wind up a company under s 459A is: see reg 4(b) of the Civil Dispute Resolution
Regulations 2011. It follows that these current proceedings are not exempted under s 6(3) or
(4) of the Civil Dispute Act.

38 Finally, it is germane to record that, under s 9 of the Civil Dispute Act, a lawyer
acting for a person who is required to file a genuine steps statement has a duty to advise that
person of that requirement and to assist that person to comply with it.

39 The end result of this brief survey of the Civil Dispute Act is that the parties to these
proceedings were obligated to file a genuine steps statement in accordance with s 6 or 7
(whichever applies) of the Civil Dispute Act: see also Rules 5.03 and 8.02 of the *Federal
Court Rules 2011*. Furthermore, the lawyer acting for each of the parties was under a duty to
advise his client about this obligation and assist it to comply with it.

40 So what then are the consequences for the parties and their lawyers in failing to comply with these obligations and duties? For present purposes, they are set out in s 12 of the Civil Dispute Act, as follows:

- (1) In exercising a discretion to award costs in a civil proceeding in an eligible court, the court, Judge, Federal Magistrate or other person exercising the discretion may take account of:
 - (a) whether a person who was required to file a genuine steps statement under Part 2 in the proceedings filed such a statement; and
 - (b) whether such a person took genuine steps to resolve the dispute
- (2) In exercising a discretion to award costs in a civil proceeding in an eligible court, the court, Judge, Federal Magistrate or other person exercising the discretion may take account of any failure by a lawyer to comply with the duty imposed by section 9.
- (3) If a lawyer is ordered to bear costs personally because of a failure to comply with section 9, the lawyer must not recover the costs from the lawyer's client.

41 In addition to these provisions of the Civil Dispute Act, it is necessary to identify the provisions of the FCA Act that have a bearing on the costs issue in these proceedings. On this aspect, s 13 of the Civil Dispute Act makes it clear that the powers in that Act are available in addition to any powers the Court has under other legislation. This obviously includes the powers expressed in Pt VB (including s 37N) and s 43 of the FCA Act. Section 37N(4) of the FCA Act provides:

In exercising the discretion to award costs in a civil proceeding, the Court or a Judge must take account of any failure to comply with the duty imposed by subsection (1) or (2).

42 The duty referred to in this subsection is set out in subs 37N(1) and (2) as follows:

- (1) The parties to a civil proceeding before the Court must conduct the proceeding (including negotiations for settlement of the dispute to which the proceeding relates) in a way that is consistent with the overarching purpose.
- (2) A party's lawyer must, in the conduct of a civil proceeding before the Court (including negotiations for settlement) on the party's behalf:
 - (a) take account of the duty imposed on the party by subsection (1); and
 - (b) assist the party to comply with the duty.

The expression "overarching purpose" in subs(1) above is defined in s 37M(1) of the FCA Act. I have already paraphrased that definition at [9] above.

43 Finally, it should be noted that s 37N(5) of the FCA Act provides:

If the Court or a Judge orders a lawyer to bear costs personally because of a failure to comply with the duty imposed by subsection (2), the lawyer must not recover the costs from his or her client.

See also s 43(3)(f) of the FCA Act, which is to similar effect.

44 All of these provisions contain considerations that may be relevant to the disposition of the costs issue in these proceedings.

45 Having identified them and put the parties and their lawyers on notice that I intend to have regard to them, I consider I should now give them the opportunity to make submissions as to how they say I should proceed to deal with this costs issue.

46 However, since an obvious conflict is likely to arise between the interests of the clients and that of their respective lawyers on this issue, I consider I should make the following directions:

1. That each of the two lawyers concerned is to provide a copy of these reasons to his respective client and advise it to seek independent legal advice on the question of the costs of these proceedings.
2. That the two lawyers concerned be joined as parties to these proceedings for the limited purpose of determining the question of the costs of these proceedings.

47 Finally, I intend to direct the Registrar to provide a copy of these reasons to the Queensland Law Society, the Bar Association of Queensland and the Legal Services Commission, so that those bodies may take such action as they consider appropriate in relation to the conduct of the two lawyers concerned.

I certify that the preceding forty-seven (47) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Reeves.

Associate:

Dated: 23 March 2012