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CATCHWORDS

Arbitration - contract made in U.S.A. containing arbitration clause - proceedings for breach of contract and breach of Part V, Trade Practices Act, 1974 and patent infringement - stay application by respondent in respect of whole proceedings - stay of proceedings mandatory under Arbitration (Foreign Awards and Agreements) Act, 1974 - stay refused for matters relating to Part V and patent infringement - stay granted in respect of claims in contract.

Flakt Australia Ltd. v. Williams & Davies Construction Co. Ltd. [1979] 2 N.S.W.L.R. 243 - con.
Elders CED Ltd. v. Dravo Corporation (1984) 59 ALR 306 - con.
Roussel-Uclaf v. G.D. Searle & Co. Limited (1978) RPC 747 - con.

ALLERGAN PHARMACEUTICALS INC. and ALLERGAN PHARMACEUTICALS PTY. LIMITED v. BAUSCH & LOMB INC. and BAUSCH & LOMB (AUSTRALIA) PTY. LIMITED

No. NSW G250 of 1985

Beaumont, J.

Sydney

4 October, 1985.

IN THE FEDERAL COURT OF AUSTRALIA)
)
NEW SOUTH WALES DISTRICT REGISTRY) No. G250 of 1985
)
GENERAL DIVISION)

BETWEEN: ALLERGAN PHARMACEUTICALS INC. and ALLERGAN PHARMACEUTICALS PTY. LIMITED

Applicants

AND: BAUSCH & LOMB INC. and BAUSCH & LOMB (AUSTRALIA) PTY. LIMITED

Respondents

MINUTES OF ORDER

JUDGE MAKING ORDER: BEAUMONT J.

DATE OF ORDER: 4 OCTOBER, 1985

WHERE MADE: SYDNEY

THE COURT ORDERS THAT:

1. Order pursuant to s.7 of the Arbitration (Foreign Awards and Agreements) Act, 1974

(a) That these proceedings be stayed so far as they involve claims for breach of contract upon the condition that such stay may be terminated upon application by the applicants in the event that the respondents do not do all things necessary to be done on their part to have the matters referred to hereunder determined in accordance with the arbitration agreement between the parties with reasonable expedition.

(b) That the parties be referred to arbitration in respect of the matters the subject of these proceedings so far as they involve claims for breach of contract.

2. Reserve costs.

3. Reserve liberty to apply on 3 days notice.

NOTE: Settlement and entry of orders is dealt with in Order 36 of the Federal Court Rules.

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Respondents

CORAM: Beaumont, J.

DATED: 4 October 1985

REASONS FOR JUDGMENT
(ON RESPONDENTS' APPLICATION FOR STAY OR SUMMARY DISMISSAL OF PROCEEDINGS)

These proceedings were commenced by application filed on 30 August 1985 by the first applicant, Allergan Pharmaceuticals Inc., a Delaware corporation, and by its subsidiary company, Allergan Pharmaceuticals Pty. Limited, a company incorporated in New South Wales, the second applicant. The applicants filed at the same time a statement of claim which has since been amended twice without objection. In their pleadings, the applicants seek various forms of relief against the first respondent, Bausch & Lomb Inc., a New York corporation, and its subsidiary,

Bausch & Lomb (Australia) Pty. Limited, a company incorporated in New South Wales, the second respondent, under several provisions of Part V of the Trade Practices Act, 1974. They also seek to invoke the Court's associated and accrued jurisdictions in respect of certain other claims being allegations of infringements of certain Australian letters patent including a claim that the respondents have aided and abetted others in infringements of the letters patent. A claim is also made for damages for alleged breach of contract.

The present application is made by the respondents pursuant to an amended notice of motion filed on 27 September 1985 for orders that the proceedings be stayed pursuant to s.7 of the Arbitration (Foreign Awards & Agreements) Act, 1974 ("the Arbitration Act"); alternatively, a stay is sought under the Arbitration Act of so much of the proceedings as involves claims of contraventions of the provisions of Part V of the Trade Practices Act and consequential relief. A further application is made by the respondents pursuant to O.20 r.2 for dismissal of the proceedings generally; alternatively, the respondents seek, pursuant to O.20 r.2, the dismissal of the claims made by the applicants so far as they charge contraventions of certain of the provisions of Part V of the Trade Practices Act. Finally, assuming that the claims lastly mentioned have been dismissed as asked, the

respondents seek an order dismissing the claims alleging patent infringements on the ground that the Court then lacked accrued or associated jurisdiction to entertain such claims.

I shall deal first with the stay application. By s.4 of the Arbitration Act, approval is given to accession by Australia to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted in 1958 by the United Nations Conference on International Commercial Arbitration ("the Convention"). Section 7 is as follows: -

> "7.(1) Where -
>
> (a) the procedure in relation to arbitration under an arbitration agreement is governed, whether by virtue of the express terms of the agreement or otherwise, by the law of a convention country;
>
> ....
>
> this section applies to the agreement.
>
> (2) Subject to this Act, where -
>
> (a) proceedings instituted by a party to an arbitration agreement to which this section applies against another party to the agreement are pending in a court; and
>
> (b) the proceedings involve the determination of a matter that, in pursuance of the agreement, is capable of settlement by arbitration, on the application of a party to the agreement, the court shall, by order, upon such conditions (if any) as it thinks fit, stay the proceedings or so much of the proceedings as involves the determination of that matter, as the case may be, and refer the parties to arbitration in respect of that matter. (emphasis added)

> (3) Where a court makes an order under sub-section (2), it may, for the purpose of preserving the rights of the parties, make such interim or supplementary orders as it thinks fit in relation to any property that is the subject of the matter to which the first-mentioned order relates.
>
> (4) For the purposes of sub-sections (2) and (3), a reference to a party includes a reference to a person claiming through or under a party.
>
> ...."

An "arbitration agreement" is defined in s.3(1) to mean an agreement in writing of the kind referred to in sub-article 1 of Article II of the Convention. That sub-article is in these terms:-

> "1. Each Contracting State shall recognize an agreement in writing under which the parties undertake to submit to arbitration all or any differences which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not, concerning a subject matter capable of settlement by arbitration."

The arbitration agreement now relied upon by the respondent is an agreement made as of 1 July 1979 between the first applicant and the first respondent dealing with the sale or resale of the products of the first applicant, in particular an enzyme contact lens cleaner, outside of the United States, including in Australia ("the Agreement"). It will be necessary to refer later to the detail of the Agreement and its surrounding circumstances. It will suffice, for present purposes, to note that in its

application to the enzyme cleaner, the Agreement is to terminate on 31 December 1991, and to refer to sections XIX and XX of the Agreement, which are as follows: -

> "XIX. Arbitration
>
> Any controversy or claims arising out of or relating to this Agreement shall be settled by arbitration in the City of New York, State of New York, in accordance with the Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitrator(s) may be entered in any Court having jurisdiction thereof.
>
> XX. New York Law
>
> This Agreement shall be construed in accordance with the provisions of New York law as if made and to be performed in New York."

There is documentary evidence, tendered pursuant to s.10(1) of the Arbitration Act, that on 30 September 1970 the United States of America acceded to the Convention and has continued to be a Convention country for the purposes of the Act.

In order to understand the several questions which arise on the respondents' application, it is necessary to explain in some detail the allegations made by the applicants in their amended statement of claim. The first respondent carries on the business of manufacturing and selling optical products, including contact lenses which are marketed in Australia by the second respondent (paras. 3 and 4). The first applicant carries on the business of

developing, manufacturing and marketing contact lens care products including a product for the removal of proteinaceous deposits from contact lenses ("the Hydrocare product") sold under the trade mark and name "Hydrocare". The first applicant supplies these products, including the Hydrocare products, to the second applicant which carries on the business of selling them in Australia (para.5). The first applicant is the registered proprietor of Australian letters patent No. 483265 for an invention entitled "Method and Composition of Removing Proteinaceous Deposits from Contact Lenses" ("the Hydrocare Patent"). It will suffice for present purposes to note that the primary claim defining the invention the subject of these letters patent is "(a) method for removing proteinaceous deposits from contact lenses comprising contacting the lens for a period of time sufficient to clean the lens, with an aqueous solution containing an effective amount of a protease". The Hydrocare Patent was granted pursuant to a patent application lodged on 16 April 1974, the completed specification of which was published on 13 November 1975 and accepted on 11 May 1977 (para.6).

The Hydrocare product is manufactured in accordance with the Hydrocare Patent and is sold as tablets ("Hydrocare tablets") which contain a measured amount of protease enzyme which is non-toxic to eyes and contact lenses, together with instructions for use (para.7). Since 1976, the second

applicant has sold Hydrocare tablets under the trade mark and name "Hydrocare" (para.8). Since 1971, pursuant to agreements made on 17 September 1971, 11 May 1973, 1 November 1974, 24 January 1977 and 1 July 1979 between the first applicant and the first respondent ("the agreements"), the first applicant has agreed to supply to the first respondent certain soft contact lens cleaning products including Hydrocare tablets (para.9).

The amended statement of claim then pleads, in terms, sections IV, V, VI, VII, VIII and IX of the agreement. Section IV deals with the supply, forecasting and ordering of products. Packaging is dealt with in section V as follows -

> "V. Packaging
>
> A. ALLERGAN shall supply to B&L the Products, Combination Packages, Samples and Sample Packages in the same size packages as the Comparable ALLERGAN Products are sold in a country. The package design and art work shall be determined by B&L. ALLERGAN shall, at B&L's request and providing such requests are reasonable, provide Samples and Sample Package sizes different from that used for the Comparable ALLERGAN Products. If the direct manufacturing costs of B&L's selected packaging exceeds that of the Comparable ALLERGAN Product, B&L shall pay the difference.
>
> B. The words "Manufactured by Allergan Pharmaceuticals" shall appear on each Product package in one place, to be determined by B&L, in no larger than 10 point type."

Samples are dealt with by section VI. Para.C is in these terms -

> "C. Samples and Sample Packages shall be used by B&L for the purpose of creating new customers for the Products and shall not be sold except as part of a B&L starter kit."

Section VII deals with the first respondent's "Soflens" brand as follows:-

> "VII. SOFLENS Brand
>
> A. The Enzyme Cleaner shall be the only proteolytic enzyme containing product for cleaning soft contact lenses sold by B&L under the SOFLENS brand name.
>
> B. The SOFLENS brand of enzyme cleaner shall be sold by ALLERGAN only to B&L.
>
> C. The Soaking Solution shall be the only disinfecting soaking solution for soft contact lenses sold by B&L under the SOFLENS brand name.
>
> D. The SOFLENS brand of disinfecting soaking solution shall be sold by ALLERGAN only to B&L.

Promotion is dealt with by section VIII:-

> "VIII. Promotion
>
> A. Except as authorized by Section VIII.B., B&L shall recommend and promote the sale of the Enzyme Cleaner in a manner not inconsistent with its labelling as one of its cleaning regimens for use with the SOFLENS (polymacon) Contact Lens in all countries in which it may legally be sold and in which B&L has a Subsidiary or Branch which sells the lenses.

B. i. If, in a country where B&L has a Subsidiary or Branch, B&L should discontinue the sale of the Enzyme Cleaner or cease promoting the Enzyme Cleaner or sell a different enzyme preparation for the cleaning of SOFLENS (polymacon) Contact Lenses then ALLERGAN may sell the SOFLENS brand of enzyme cleaner in that country to persons other than B&L. With respect to any such sales ALLERGAN shall pay, within thirty days after the close of each quarter to B&L at Rochester, New York, a royalty equal to 7 1/2% of its Net Sales accompanied by a report showing the basis upon which the payment to B&L has been computed. (emphasis added)

ii. Notwithstanding the license granted in Paragraph B.1., B&L shall retain full ownership of the trademark SOFLENS and all such trademarks and/or logos including the name "Bausch & Lomb" as well as "B&L" which may be used in connection with the marketing of the B&L hydrophilic plastic contact lenses. ALLERGAN agrees to maintain the quality of the Enzyme Cleaner sold under the trademarks at a high level commensurate with the reputation of B&L. ALLERGAN shall supply B&L with samples of the Enzyme Cleaner from time to time and B&L shall have the continuous right to inspect the Enzyme Cleaner in order to ascertain that ALLERGAN is meeting the high quality standards of B&L. ALLERGAN will submit in advance to B&L samples of all labelling and promotional material to be used in connection with the marketing of the Enzyme Cleaner and, before using any such labelling or promotional material in connection with the marketing of the Enzyme Cleaner, ALLERGAN shall first have obtained written approval for such use from B&L. If B&L shall, in its sole opinion, disapprove of the labelling or promotional material or determine

that the quality of any of the Enzyme Cleaner does not meet B&L quality standards, it shall so notify ALLERGAN and ALLERGAN shall not use the disapproved labelling or promotion material nor sell such Enzyme Cleaner until the labelling or promotion material is approved, or the quality is improved to meet B&L's standards, as the case may be. Further ALLERGAN agrees to do nothing that would in any way depreciate the value of B&L's trademark.

iii. In the event of termination of this Agreement for any reason whatsoever ALLERGAN shall immediately cease all further use outside of United States of any of the trademarks licensed hereunder.

C. Except as provided in Paragraph VIII.B., B&L does not grant and ALLERGAN does not acquire any rights in or to the SOFLENS or Bausch & Lomb trademark or trade name.

D. ALLERGAN may not feature the SOFLENS Contact Lens name in its labelling and advertising for Comparable ALLERGAN Products. The listing of the SOFLENS Contact Lens brand in a list of lens brands of equal prominence is not deemed to be "featured.""

By section IX provision is made for the payment of royalties as follows -

"IX Royalties

ALLERGAN shall pay, within thirty (30) days after the close of each quarter to B&L at Rochester, New York, a royalty equal to 5% of ALLERGAN'S Net Sales of enzymatic contact lens cleaning tablets and 2 1/2% of ALLERGAN'S net sales of Combination Packages of Comparable ALLERGAN Products sold under any brand name other than the SOFLENS brand name accompanied by a report showing the basis on which the payment to B&L has been computed."

The amended statement of claim further alleges that pursuant to the agreements -

(a) the first applicant supplied to the first respondent throughout the world and the second applicant has supplied to the second respondent in Australia, inter alia, Hydrocare tablets in the same size packages as comparable Allergan products are sold in the countries of supply, including Australia, bearing words such as "manufactured by Allergan" and bearing the name "Bausch & Lomb" and/or the trade mark and name "Soflens";

(b) in Australia, the respondents have not sold any proteolytic enzyme product for cleaning soft contact lenses under or by reference to the name "Bausch & Lomb" or under or by reference to the trade mark and name "Soflens" except Hydrocare tablets;

(c) in Australia, the respondents have not sold any disinfectant soaking solution under or by reference to the name "Bausch & Lomb" and/or the trade mark and name Soflens except Allergan U.S. disinfectant soaking solution.

(d) the respondents have widely advertised and sold throughout the world and in Australia the Hydrocare tablets under and by reference to the name "Bausch & Lomb" and the trade mark and name "Soflens", bearing words such as "manufactured by Allergan" as aforesaid. (para.11).

It is then alleged that, by reason of the foregoing, it has been represented in Australia and elsewere to medical practitioners, opticians, opthalmologists and members of the public, including wearers of soft contact lenses, and it is the fact that, and it is the belief of medical practitioners, opticians, opthalmologists and members of the public, including wearers

of soft contact lenses to whom such representations were made, that -

(a) the Hydrocare tablets sold by the respondents under the trade marks and names "Bausch & Lomb" or "Soflens" are manufactured by the first applicant;

(b) the Hydrocare tablets sold by the respondents under the trade marks and names 'Bausch & Lomb" or "Soflens" are of the same standard, quality, grade and composition as the Hydrocare tablets manufactured and sold by the applicants.

(c) the Hydrocare tablets sold by the respondents under the trade marks and names "Bausch & Lomb" or "Soflens" have the sponsorship or approval of the applicants or have the performance characteristics, uses and benefits of the Hydrocare tablets manufactured and sold by the applicants (para.12).

It is then said that by reason of the foregoing, the applicants have valuable goodwill and reputation in and in relation to the Hydrocare tablets manufactured by the first applicant (para.13). It is further alleged that the Hydrocare tablets sold by the applicants to the respondents and resold by the respondents to purchasers and users under the names and marks "Bausch & Lomb" or "Soflens" were sold without restriction as to use and it was an implied condition of their sale that the respondents had the right to sell them and that the purchasers thereof and the users thereof would enjoy quiet possession of the Hydrocare tablets (cf. Trade Practices Act, s.69). (para.14).

It is further alleged that the Hydrocare tablets sold by the applicants to the respondents have been sold by the respondents to purchasers and users in a distinctive get-up which is the same or a similar get-up to that adopted by the respondents for other products used in contact lens care. (para.14A).

It is further alleged that the first respondent has developed an enzymatic cleaner for use in removing proteinaceous deposits from soft contact lenses and that the respondents intend to sell tablets containing protease for the purpose of cleaning soft contact lenses, together with instructions for their use. Reference is made to the filing by the first respondent of European Patent Application No.84307265.3 entitled "Microbial Enzymatic Contact Lens Cleanser and Methods for Use" (para.15). An infringement of the Hydrocare patent by the respondents is then charged by reason of their manufacture and sale of the tablets (para.16). It is further alleged that the respondents intend to infringe the Hydrocare Patent and to aid and abet others to do so (para.17).

Then it is said that the respondents threaten to represent to consumers -

(a) that consumers are entitled to use a product containing protease, other than the Hydrocare Product manufactured by the first applicant as an enzymatic cleaner for contact lenses;

(b) that consumers will enjoy quiet possession of any such product for such use;

(c) that such product is manufactured by the first applicant;

(d) that such product is of the same standard quality grade or composition as the Hydrocare tablets sold by the applicants;

(e) that such product has the performance characteristics, uses and benefits of the Hydrocare tablets manufactured and sold by the applicants;

(f) that such product is the same as the product previously marketed by the respondents, which had been manufactured by the first applicant (para.17A).

The applicants further charge that the respondents threaten to represent to medical practitioners, opticians and ophthalmologists -

(a) that medical practitioners, opticians and ophthalmologists have the right to prescribe or sell a product containing protease, other than the Hydrocare Product manufactured by the first applicant for use as an enzymatic cleaner for contact lenses;

(b) that medical practitioners, opticians and ophthalmologists will enjoy quiet possession of any such product for such use;

(c) that the respondents have the right to sell such a product, other than the Hydrocare Product manufactured by the first applicant for such use or for resupply for such use;

(d) that such product is manufactured by the first applicant;

(e) that such product is of the same standard quality grade or composition as the Hydrocare tablets manufactured and sold by the applicants;

(f) that such product has the performance characteristics, uses and benefits of the Hydrocare tablets manufactured and sold by the applicants;

(g) that such product is the same as the product previously marketed by the respondents, which had been manufactured by the first applicant (para.17B).

The applicants further charge that the respondents threaten to mislead and deceive medical practitioners, opticians, ophthalmologists and members of the public by substituting for the Hydrocare product sold under the names "Bausch & Lomb" or "Soflens" a product other than the Hydrocare product manufactured by the first applicant; and that the respondents intend to use in relation to the said substituted product a get-up the same or closely similar to that used by the respondents for their other products referred to in para.14A (para.17C). In the premises, the respondents are charged with conduct or threatened conduct -

(a) which is misleading and deceptive or likely to mislead or deceive within s.52 of the Trade Practices Act;

(b) whereby they falsely represent that goods are of a particular standard quality grade or composition within s.53(a) of the Trade Practices Act;

(c) whereby they represent that goods have sponsorship approval or performance characteristics which they do not have within s.53(d) of the Trade Practices Act; and

(d) whereby they make a false or misleading statement concerning the existence of a right, within s.53(g) of the Trade Practices Act (para.18).

The applicants then seek the relief claimed in the application filed with their statement of claim.

In their application the applicants seek injunctions restraining the respondents from -

(a) selling any substance containing protease or any compound within the invention claimed in the first respondent's European Patent Application for use as an enzymatic cleaner for contact lenses other than the genuine product of the applicants sold under or by reference to the names "Allergan", "Hydrocare", "Soflens" or "Bausch & Lomb";

(b) representing to consumers that they are entitled to use any such substance or compound as an enzymatic cleaner for contact lenses other than the said product of the applicants;

(c) representing to consumers that they will enjoy quiet possession of any such substance or compound for use as an enzymatic cleaner for contact lenses other than the said product of the applicants;

(d) representing to consumers and to medical practitioners, optometrists and ophthalmologists that the respondents or medical practitioners, optometrists or ophthalmologists have the right to sell any such substance or compound for such use;

(e) selling such substance or compound together with instructions for use in infringement of the letters patent;

(f) aiding or abetting or being a party to the conduct of others the subject of orders (a), (b), (c) and (d) above and from counselling or procuring the infringement of the letters patent by others.

The applicants further claim damages pursuant to s.82 of the Trade Practices Act; an order for delivery up by the respondents of all products, packaging, plates, promotional matter, marketing material or printed matter of any kind bearing instructions for use of the product in infringement of the letters patent; an inquiry as to damages, or, in the alternative, an account of profits in respect of the infringement by the respondents of the letters patent; damages for breach of contract; such furtner or other order, including orders for corrective advertising and otherwise under s.87 of the Trade Practices Act as to the Court may seem fit.

Reference should next be made to the respondents' defence filed on 23 September 1985. Formal matters apart, it will suffice for present purposes to note that the respondents put in issue any contravention of the Trade Practices Act, any infringement of the letters patent and any breach of the Agreement. In addition to the claim for stay now sought, a number of special defences are raised. The respondents say that the claims of the letters patent are invalid on the grounds of objection they then particularise. They further say that the effect of the Agreement is to confer upon the respondents a licence in respect of the patent upon a condition that prohibits or restricts the respondents from using for the term of the Agreement that is to say until 31 December 1991, any product

for cleaning soft contact lenses sold by the respondents under the Soflens brand name which contains any proteolytic enzyme and which is supplied by a person other than the applicants, but they say that the said condition is void and it is not an infringement of the patent for the respondents to do what it is alleged that they have done or are threatening to do (see Patents Act 1952, s.112).

Then the respondents refer to section VIII of the Agreement and say that it contains covenants by the first applicant that the applicants will not do anything that would in any way depreciate the value of the trade marks of the respondents or acquire any rights in or to the Soflens trade mark or trade name or the Bausch & Lomb trade mark or trade name; and that the first respondent will retain full ownership of the trade mark Soflens and all such trade marks or logos including the name "Bausch & Lomb" as well as "B. & L." which may be used in connection with the marketing by the respondents of hydrophilic plastic contact lenses. The respondents say that by the institution of these proceedings and by allegations made in paras. 12, 13, 17A, 17B, 17C, 18 and 19 of the amended statement of claim and by the relief sought in these proceedings, the applicants have broken and propose furtner to breach the said covenants in the Agreement.

In support of their present application, the respondents tendered a body of documentary evidence, including certain paragraphs of the affidavit of the Managing Director of the second applicant, Mr. Christopher D.B. Greenhill, sworn on 3 September 1985 and filed on behalf of the applicants. For their part, the applicants read the balance of Mr. Greenhill's affidavit. The affidavit is lengthy. I am satisfied that the case sought to be made by the applicants in the evidence of Mr. Greenhill, including his oral evidence given in cross-examination on his affidavit, not only does not go beyond the case sought to be made by the applicants in their amended statement of claim but, substantially at least, seeks to make that case. In the circumstances, it is unnecessary to refer to that evidence or, indeed, any of the other evidence tendered by any party, with the exception of certain correspondence now to be mentioned.

By letter dated 21 June 1985, Mr. James C. Bullis, Director, Materials Management of the first applicant, wrote to Mr. John E. Housden, Vice-President, International Marketing, of the first respondent saying -

> "As you may be aware, certain subsidiaries and branches of Bausch & Lomb have, over the last several months, begun submitting to Allergan purchase order forecasts showing no demand for enzyme cleaning product. The Agreement dated July 1, 1979, between Allergan and Bausch & Lomb, which covers the sale of enzyme tablets internationally, authorizes Bausch & Lomb to discontinue the sale of Allergan products on a

> country-by-country basis and commence the sale of its own product. This letter is to confirm that, within approximately 30 days, Bausch & Lomb will begin the introduction of its own enzyme product in the countries on the attached list. Accordingly, no further purchases of Allergan product will be required for those countries..."

On the same date, Mr. Daniel E. Gill, Chairman of the Board and President of the first respondent, wrote to Mr. Gavin S. Herbert, Chairman of the Board and Chief Executive Officer of the first applicant in response to a letter written by Mr. Herbert on 10 June 1985. Mr. Gill, after claiming that the first applicant's United States patent was unenforceable against the first respondent, said:-

> "....contractual issues which concern you arise out of two separate and distinct agreements: 1) the domestic agreement for the sale of enzyme tablets in the United States, or 2) the international agreement for the sale of such tablets internationally. Your statement, therefore, that Bausch & Lomb's marketing of the new enzymatic product "will inevitably result in a breach of the agreeement between our companies" needs to be examined in the light of the provisions of the two agreements. Your conclusion is not correct under either agreement..."

The first question which arises for determination is the meaning of the phrase "matter that is capable of settlement by arbitration" where used in s.7(2)(b) of the Arbitration Act. In Flakt (Australia) Ltd. v. Wilkins & Davies Construction Co. Ltd. (1979) 2 N.S.W.L.R. 243, McLelland, J. said (at p.250) -

> "The plaintiff contends that the word "matter" in s.7(2)(b) denotes the ultimate subject matter at issue between the parties, which is said to be how much is the defendant entitled to be paid for the work it has done. and further contends that there could be no "settlement" within the meaning of the section without a complete resolution of that issue, which, it is said, is not possible under the arbitration agreement, because of the claims foreshadowed by the defendant as alternatives to its primary contentions, for rectification of the accepted purchase order and for breach of an alleged duty by the plaintiff to draw attention to material changes in the scope of the work that would arise out of the purchase order. Such claims for rectification or for breach of duty, it is said, are not capable of being determined by arbitration under the arbitration agreement.
>
> It is further contended for the plaintiff that, in so far as the present application is founded upon s.7 of the 1974 Act, it is premature. It is argued that it is not until after the pleadings have closed that one can properly determine whether the proceedings fall within s.7(2)(b).
>
> In my opinion, the word "matter" in s.7(2)(b) denotes any claim for relief of a kind proper for determination in a court. It does not include every issue which would, or might, arise for decision in the course of the determination of such a claim. The use of the word "settlement" provides support for the view. "Settlement" is an apt term to be used in relation to a claim for relief - it is less apt in relation to a mere issue."

This reasoning was followed by Foster, J. in Elders CED Ltd. v. Dravo Corporation (1984) 59 A.L.R. 206 at p.210 and, with respect, I agree with it. It is necessary, therefore, to analyse with some precision the nature of the claims for relief made in the amended statement of claim. In particular, it will be necessary to inquire whether any claim is made for breach of the Agreement.

In this respect, the pleading is somewhat equivocal. Certain sections of the Agreement are pleaded in terms. However, on the face of it, these allegations appear to do no more than provide part of the substratum of facts in which, as a matter of background only, the apprehended contraventions of the Trade Practices Act will occur. There is not, in terms at least, any specific allegation that a breach has occurred of any of the provisions of the Agreement, notwithstanding the foreshadowing of such a claim in the June 1985 correspondence. On the other hand, the application does claim damages for breach of contract.

In the circumstances, it must be accepted that part of the applicants' claim, as presently framed, is based on an alleged breach or breaches of the Agreement, although the pleading hardly defines such a cause of action with any particularity. But, once such an allegation is pleaded, the provisions of section XIX of the Agreement must apply - a claim for damages for breach of contract is clearly a "controversy or claim arising out of or relating to (the) Agreement" at least so far as concerns the first applicant. (The position of the second applicant may be different because it was not a party to the Agreement). It follows that, since the provisions of s.7(2)(b) are mandatory, a stay of proceedings so far as concerns the first applicant should be granted so far as a claim for

breach of contract is involved. I shall return later to the conditions to be imposed on the grant of the stay.

The position of the second applicant in this regard is not so obvious, although the definition of "S&L" in section 1A of the Agreement extends to subsidiaries of the first applicant and the provisions of s.7(4) of the Arbitration Act may apply so as to pick up the second applicant in any event (see Roussel-Uclaf v. G.D. Searle & Co. Limited (1978) R.P.C. 747 at pp.754-5). Because of the obscurity of the pleading, it must be assumed, at this stage at least, that the second applicant is also seeking relief for breach of contract. It follows that a stay of proceedings should now be granted against the second applicant so far as a claim for breach of contract is involved.

For those reasons, in my opinion, a stay of proceedings should be granted so far as they involve claims for relief for breach of contract. The respondents further seek a general stay. Such a stay can, in my view, only be granted if the remaining claims for relief fall within the provisions of section XIX of the Agreement. The phrase in that reference "arising out of or relating to (the) Agreement" is, it is true, capable of the widest construction (see Heyman v. Darwins, Limited [1942] A.C. 356 at p.366 and Fountain v. Alexander 150 C.L.R. 615 at p.629).

But can it be said that the applicants' claims that the several provisions of the Trade Practices Act have been contravened are referable to arbitration under this clause? In my opinion, those claims fall outside the purview of that clause. In my view, causes of action in the form of contraventions of ss.52, 53(a), 53(d) or 53(g) arise exclusively from the statutory provisions themselves. It is trite to say that causes of action under the general law, whether in contract or otherwise, arise independently of these provisions. In the absence of any substantive nexus or connection between the contract sued upon and the contraventions of the several provisions of Part V of the Trade Practices Act alleged, and, in my view, none exists here, the latter causes of action cannot be referable to arbitration pursuant to section XIX.

In my opinion, it is not enough for this purpose to point to the contract as part of the background to these alleged contraventions. As has been said, the statutory causes of action now sued upon exist independently of contract. They are consumer protection provisions which in no way depend upon any private agreement for their source. Conduct of the kind proscribed by Part V of the Trade Practices Act will be established, if at all, irrespective of the contractual relations of the immediate parties. Nor could any contract inter partes constitute a defence to any alleged contravention of such legislation. In short, an

alleged contravention of Part V of the Trade Practices Act is not, as a matter of characterisation, a "controversy or claim arising out of or relating to (the) Agreement" for the purposes of section XIX of that contract. (cf. Wyatt Earp Enterprises Inc. v. Sackman Inc. 157 F Supp 621 (1958)).

The same observations can be made of the claimed infringement of the letters patent. Again, the cause of action is statutory only (see N.V. Maatschappij Voor Industriele Waarden v. A.J. Smith Corporation 523 F. 2d 874 (1976)).

In the result, I refuse to extend the stay beyond the claims for breach of contract.

As to conditions, I propose to adopt the approach taken by McLelland J. in Flakt, noting that Lockhart, J. took a similar course in White Industries Ltd. v. Trammell (1983) 51 A.L.R. 779 at p.786.

It must follow from the stay to be granted that the applicants will need to further amend their statement of claim so as to exclude their claims in contract. In the timetable mentioned in the reasons given on the applicants' application for interlocutory relief, provision should be made for a direction that the applicants file within 7 days an amended statement of claim omitting any claim for breach

of contract. Provision should also be made in that timetable for the respondents to file an amended defence within a further 14 days. If any dispute arises on the fresh pleadings, including the amended defence, as to the scope or operation of the limited stay now to be granted, it can be dealt with pursuant to the liberty to apply to be reserved. It is hardly necessary to say that the amended pleading should clearly exclude any suggestion that the applicants seek to agitate in this Court any substantive cause of action in contract. This is not to say that the applicants may not properly refer to the agreements by way of background to their claimed contraventions of the Trade Practices Act.

I make the following orders -

1. Order pursuant to s.7 of the Arbitration (Foreign Awards and Agreements) Act, 1974

   (a) That these proceedings be stayed so far as they involve claims for breach of contract upon the condition that such stay may be terminated upon application by the applicants in the event that the respondents do not do all things necessary to be done on their part to have the matters referred to hereunder determined in accordance with the arbitration agreement between the parties with reasonable expedition.

   (b) That the parties be referred to arbitration in respect of the matters the subject of these proceedings so far as they involve claims for breach of contract.

2. Reserve costs.

3. Reserve liberty to apply on 3 days' notice.

Counsel and Solicitors for Applicant:	Mr. J.C. Campbell and Mr. C.C. Hodgekiss were instructed by Minter Simpson.
Counsel and Solicitors for Respondent:	Mr. W.M. Gummow was instructed by Allen Allen & Hemsley
Dates of hearing:	27, 30 September 1985 1 October 1985
Date Judgment Delivered:	4 October 1985

I certify that this and the 26 preceding pages are a true copy of the reasons for judgment herein of The Honourable Mr Justice Beaumont.

Associate

Dated 4 October '85

IN THE FEDERAL COURT OF AUSTRALIA)
)
NEW SOUTH WALES DISTRICT REGISTRY) No. G250 of 1985
)
GENERAL DIVISION)

BETWEEN: ALLERGAN PHARMACEUTICALS INC. and ALLERGAN PHARMACEUTICALS PTY. LIMITED

Applicants

AND: BAUSCH & LOMB INC. and BAUSCH & LOMB (AUSTRALIA) PTY. LIMITED

Respondents

CORAM: Beaumont, J.

DATED: 4 October 1985

REASONS FOR JUDGMENT
(ON APPLICANTS APPLICATION FOR INTERLOCUTORY RELIEF)

In this application the respondents have proffered undertakings to the Court in the terms of the document annexed to these Reasons. Although the application was argued at some length, it ultimately emerged that, subject to a satisfactory final hearing date being available, the applicants accepted that the undertakings proffered by the respondents would preserve the status quo. After some discussion, the parties agreed upon a timetable which meant that the matter could proceed to a final hearing on 21 April 1986. I propose to fix the hearing date to commence on that date. I note that it is estimated that the hearing time required will be in the order of four weeks. I

propose to give directions in accordance with the proposed timetable agreed upon by the parties.

The formal orders I now make are as follows -

1. I note the undertakings to the Court given on behalf of the respondents.

2. Reserve costs.

3. Reserve liberty to any party to apply on such notice as a Judge shall allow.

I certify that this and the 1 preceding page are a true copy of the reasons for judgment herein of The Honourable Mr Justice Beaumont

Associate

Dated 4 October 1985

EXHIBIT "A"

"H"

IN THE FEDERAL COURT OF AUSTRALIA

NEW SOUTH WALES REGISTRY

GENERAL DIVISION

No. G250 of 1985

IN THE MATTER OF THE TRADE PRACTICES ACT, 1974 (AS AMENDED)

BETWEEN: ALLERGAN PHARMACEUTICALS INC. and ALLERGAN PHARMACEUTICALS PTY. LIMITED

Applicants

AND: BAUSCH & LOMB INC. and BAUSCH & LOMB (AUSTRALIA) PTY. LIMITED

Respondents

UNDERTAKINGS

The Court notes the undertaking of the Respondents by their Counsel, without admissions, not to:-

(a). For a period of three months from September 27, 1985 import, market, offer for sale, promote, advertise, sell and/or supply in the Commonwealth of Australia:

(i) any substance containing a protease and/or

(ii) any compound within the invention claimed in the First Respondent's European Application No. 843072653

for use as an enzymatic cleaner for contact lenses other than the product manufactured by the Applicants.

(b). At any time after the expiration of the three months period referred to in (a) above, import, market, offer for sale, promote, advertise, sell and/or supply:

(i) any substance containing a protease and/or

(ii) any compound within the invention claimed in the First Respondent's European Patent Application No. 843072663

for use as an enzymatic cleaning for contact lenses other than the product manufactured by the Applicants without first giving the Applicants ~~sixty~~ ninety days prior written notice. GIVEN AFTER 27 DECEMBER 1985.

(c) Represent that any enzymatic cleaner advertised, sold or supplied by the Respondents for contact lenses, not being one manufactured by the first named Applicant:

(i) is manufactured by the first named Applicant or

(ii) is the enzymatic cleaner for contact lenses previously advertised, sold and supplied by the Respondents.

William M Dunnow.
.....
Counsel for the Respondents

DATED: 27 September, 1985