

Appl Pan-continental Mining Ltd v Comr of Stamp Duties (Old) 19 ATR 948

Foll Pan-continental Mining v Comr of Stamp Duties [1989] 1 QdR 310

Appl Pan-continental Mining Ltd v Comr of Stamp Duties (Old) 15 IPR 612

Appl Gilder v Federal Commissioner of Taxation (1991) 22 ATR 872

Foll Breen v Williams (1996) 138 ALR 259

[HIGH COURT OF AUSTRALIA.]

THE FEDERAL COMMISSIONER OF TAXATION

RESPONDENT,

APPELLANT ;

AND

UNITED AIRCRAFT CORPORATION

APPELLANT,

RESPONDENT.

*Income Tax (Cth.) — Assessment — Non-resident — Income derived directly or indirectly from sources in Australia—Foreign company—Grant of manufacturing rights to Australian company—Business operations in Australia—Property in Australia—Income Tax Assessment Act 1936-1940 (No. 27 of 1936—No. 65 of 1940), ss. 6, 25 (1).*

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June 3, 14.

The U. Corporation was incorporated, and had its principal place of business, in the United States of America, where it carried on business as manufacturer and seller of aircraft engines and spare and replacement parts. By an agreement between it and an Australian company it purported to license the latter to manufacture and sell certain aircraft engines and parts within Australia. The agreement contained various provisions calculated to assist the Australian company in manufacture, e.g., for the delivery to that company, within the City of New York, of drawings and specifications and, f.o.b. Port of New York, of manufacturing equipment ; it also granted the right to use Australian patents and designs registered in Australia, and it was agreed that the validity of the letters patent of the U. Corporation should not be disputed, but there was no representation or warranty of the rights granted or of the validity of any letters patent, and, in fact, the corporation had no letters patent for any invention in Australia or any designs registered in Australia. Pursuant to the agreement the U. Corporation furnished drawings, specifications and information in America and delivered material f.o.b. Port of New York ; it also sent some information and advice direct to the company in Australia, and it lent one of its engineers to the company, which used his services in Australia and paid him as provided in the agreement. The agreement provided for payments, called royalties, to be made by the Australian company to the U. Corporation in dollars in New York.

Starke J.

MELBOURNE,  
Oct. 11, 12 ;  
SYDNEY,  
Dec. 6.

Latham C.J.,  
Rich and  
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*Held*, by *Latham C.J.* and *Rich J.* (*Williams J.* dissenting), that amounts paid as royalties under the agreement were not income of the U. Corporation "derived directly or indirectly from . . . sources in Australia" within the meaning of s. 25 (1) (b) of the *Income Tax Assessment Act 1936-1940*.

Decision of *Starke J.* affirmed.

# APPEAL from *Starke J.*

Objections by the United Aircraft Corporation to an assessment to Federal income tax, having been disallowed by the Commissioner, were treated as an appeal to the High Court. The appeal came on for hearing before *Starke J.* The facts sufficiently appear in the judgments hereunder.

*Ham K.C.*, *Fullagar K.C.* and *Dean*, for the appellant.

*Eager K.C.* and *Fraser*, for the respondent.

June 14.

STARKE J. delivered the following written judgment :—

Appeal by the United Aircraft Corporation against an assessment to income tax for the financial year or year of tax 1940-1941 based on the year of income 1939-1940. Admissions of fact were made by the parties. The following is a summary of the material facts.

The appellant is a company incorporated in the State of Delaware and has its principal place of business in the State of Connecticut in the United States of America. It carries on business in America as the manufacturer and seller of aircraft engines, spare and replacement parts.

The Commonwealth Aircraft Corporation Pty. Ltd. (which I shall refer to as the Australian company) was incorporated in the State of Victoria and carries on business in Australia as a manufacturer of aircraft.

In April of 1937 the appellant and the Australian company entered into a written agreement which was later amended or modified in some respects. The substance of the agreement was that the appellant licensed the Australian company to manufacture, sell and dispose of certain aircraft engines, spare and replacement parts within Australia and New Zealand for a specified period, which might be extended at the option of the Australian company. This included the right to prohibit, subject to the provisions of the agreement, the sale, lease and use by the appellant as well as by others and also the right to use within Australia and New Zealand any and all designs relating to the engines mentioned covered by letters patent or registered designs owned or controlled by the appellant within



Australia and New Zealand. And it was agreed that the validity of letters patent owned or controlled by the appellant should not be disputed, but there was no representation or warranty of the rights granted or of the validity of any letters patent. The agreement also provided for the delivery to the Australian company within the City of New York of drawings and specifications of the engines and manufacturing equipment, including patterns, dies, machines, tools, jigs, fixtures, gauges, &c. And also to furnish to the Australian company any and all standard or special manufacturing equipment as might be reasonably necessary for use in the manufacture of the engines to be delivered f.o.b. Port of New York at such prices and on such terms as the parties might agree from time to time. Further, the Australian company might at its own expense send a limited number of technicians to visit the factory of the appellant in America for the purpose of observing or studying the methods employed by the appellant in the manufacture and assembly of the engines. In addition the appellant agreed to give the Australian company information and advice as might be reasonably required to enable it to manufacture those parts of the engines manufactured by the appellant and use its best endeavours to send or loan for employment at the factory of the Australian company one engineer at least familiar with the manufacture, assembly and testing of the engines for a period of at least one year. The Australian company was to bear and pay all salary and expense of any such engineer.

The Australian company in consideration of the rights granted agreed to make various payments to the appellant in New York funds. All payments under the agreement were to be made to the credit of the appellant's account with the National City Bank in New York in New York funds current at the time of payment. These payments included an aggregate sum of 50,000 dollars distinct and apart from royalties. As and for royalties the Australian company agreed to pay to the appellant on engines and parts manufactured by the Australian company for each engine 500 dollars and for all extra or spare parts  $7\frac{1}{2}$  per cent of the appellant's list price current at the time of manufacture. Provision was made for sub-licences by the Australian company, but subject to its responsibility to the appellant for royalties. The agreement, it was provided, should be interpreted in accordance with the plain English meaning of its terms and the construction thereof should be governed by the laws of the State of Connecticut in the United States of America.

The agreement was operated by the parties: the appellant furnished drawings, specifications and information to the Australian company in America and also delivered to it material pursuant to

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the agreement f.o.b. Port of New York. Some information and advice was also sent direct to the Australian company in Australia. In addition the appellant loaned one of its engineers to the Australian company, which used his services in Australia and paid him according to the terms of the agreement. The appellant had no letters patent for any invention in Australia. Accordingly the Australian company did not exercise any rights in respect to any industrial or other property of the appellant owned or situate in Australia, but it availed itself of the valuable drawings, specifications, information, experience and material supplied to it by the appellant according to the terms of the agreement. Payments under the agreement were made to the appellant in New York, and, in particular, dollar payments were made to the appellant in New York during the income year of royalties due under the agreement at a cost to the Australian company in Australian currency of £5,092 in round figures. The Commissioner has assessed the appellant to income tax in respect of this sum of £5,092 : See Act, s. 20.

The *Income Tax Assessment Act* 1936-1940, s. 25 (1), provides that "the assessable income of a taxpayer shall include—

(a) where the taxpayer is a resident—

the gross income derived directly or indirectly from all sources whether in or out of Australia ; and

(b) where the taxpayer is a non-resident—

the gross income derived directly or indirectly from all sources in Australia,

which is not exempt income."

And in s. 6 "resident" or "resident of Australia" means—"a company which is incorporated in Australia, or which, not being incorporated in Australia, carries on business in Australia, and has either its central management and control in Australia, or its voting power controlled by shareholders who are residents of Australia."

The appellant is plainly a non-resident, for it carries on no business in Australia and has none of the other attributes required to bring it within the term "resident." Therefore the only arguable question is whether the sum of £5,092 is assessable income derived, directly or indirectly, from a source in Australia. The words "directly or indirectly" are related to the word "derived" and not to the word "sources." The income must arise from a source or sources within Australia, which is equivalent to requiring that the income shall arise or accrue from business operations carried on in Australia. The income must result directly or indirectly from the operations carried on in Australia by the taxpayer, and not from operations carried on by some other person or company.



In the present case the agreement was made in America; the appellant carried on no business operations in, and had no industrial or other property in, Australia. All the information and material was supplied in or from America. All the technicians were sent by the Australian company for instruction except an engineer who was loaned to the Australian company and became, for the time being, its officer: See *Donovan v. Laing, Wharton, and Down Construction Syndicate Ltd.* (1); *Century Insurance Co. Ltd. v. Northern Ireland Road Transport Board* (2). All payments under the agreement were made in America in dollars. In fact, and I so find, the income in respect of which the appellant was assessed was not derived directly or indirectly from any source in Australia, or, in other words, directly or indirectly from any business operations carried on by the appellant in Australia.

It is unnecessary to traverse again in detail the many cases dealing with the relevant sections of the *Income Tax Assessment Act*, but the interpretation I have given to the Act accords, I think, with the principles expounded in the following cases:—*Lovell & Christmas Ltd. v. Commissioner of Taxes* (3); *Commissioner of Taxes v. British Australian Wool Realization Association Ltd.* (4); *Studebaker Corporation of Australasia Ltd. v. Commissioner of Taxation (N.S.W.)* (5); *Federal Commissioner of Taxation v. W. Angliss & Co. Pty. Ltd.* (6); *Premier Automatic Ticket Issuers Ltd. v. Federal Commissioner of Taxation* (7); *Commissioner of Taxation (N.S.W.) v. Premier Automatic Ticket Issuers Ltd.* (8); *Commissioner of Taxation (N.S.W.) v. Hillsdon Watts Ltd.* (9).

The assessment under appeal is quashed and the Commissioner must pay the costs of the appeal.

From this decision the Commissioner appealed to the Full Court of the High Court.

*Eager K.C.* (with him *Fraser* and *P. D. Phillips*), for the appellant. The real practical source of the income in question was in Australia, notwithstanding that the money was received in America. The operations carried on in Australia were the source of the income (*Commissioner of Taxation (N.S.W.) v. Hillsdon Watts Ltd.* (10)) —See also *Nathan v. Federal Commissioner of Taxation* (11). The

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(1) (1893) 1 Q.B. 629.

(2) (1942) A.C. 509.

(3) (1908) A.C. 46.

(4) (1931) A.C. 224.

(5) (1921) 29 C.L.R. 225.

(6) (1931) 46 C.L.R. 417.

(7) (1933) 50 C.L.R. 268.

(8) (1933) 50 C.L.R. 304.

(9) (1937) 57 C.L.R. 36.

(10) (1937) 57 C.L.R., at pp. 41, 54.

(11) (1918) 25 C.L.R. 183.



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respondent granted a right to use its property in Australia, and its use there was the source of the income. Incorporeal rights (e.g., goodwill) are becoming recognized as having a local situation: Cf. *In re Keene* (1), in which a bankrupt was ordered to disclose secret formulae as being part of the assets of his business—See also *Dickson v. Commissioner of Taxation (N.S.W.)* (2). A formula is something of which a person may become aware; it is a vendible commodity. An “invention” may be spoken of as property, notwithstanding that a grant of letters patent has not been obtained in respect of it. The respondent had property in Australia when it granted the right to use its trade secrets here. The right granted was a proprietary right which had a local situation. The respondent’s blueprints were its property, brought to Australia for use there and to be returned after five years. *Lovell & Christmas Ltd. v. Commissioner of Taxes* (3) is not applicable here; the language of the Act there in question was different in material respects: It did not contain either of the expressions “source” or “directly or indirectly”; the word “derived” was used. That case goes back to the old idea of looking to the place where a trade or business is carried on as the place from which—to the exclusion of others—income is derived. It cannot be applied to the language of the Commonwealth Act for the purpose of ascertaining the “source” of income. The case is not inconsistent with *Commissioners of Taxation v. Kirk* (4). *Studebaker Corporation of Australasia Ltd. v. Commissioner of Taxation (N.S.W.)* (5), is likewise distinguishable: The Act in question did not contain the phrase “directly or indirectly,” and the problem was necessarily one of the direct derivation of the income. The judgment of *Starke J.* reverts to the old idea of an indivisible source and is wrong in doing so. It is now recognized that income may be attributable partly to one source and partly to another: See *Federal Commissioner of Taxation v. W. Angliss & Co. Pty. Ltd.* (6). As to royalties, *International Combustion Ltd. v. Inland Revenue Commissioners* (7) decides, in substance, that their source is where they are earned. In the present case, if the source exists in part in America, it is so trivial that it can properly be disregarded. *Commissioner of Taxes v. British Australian Wool Realization Association Ltd.* (8) was decided on a Victorian Act, the relevant expression in which was “profits earned in or derived in or from Victoria”; there was no mention of “income,” “sources,” “directly or indirectly.” The

(1) (1922) 2 Ch. 475.

(2) (1925) 36 C.L.R. 489, at pp. 505, 510, 511.

(3) (1908) A.C. 46.

(4) (1900) A.C. 588: See pp. 592, 593.

(5) (1921) 29 C.L.R. 225.

(6) (1931) 46 C.L.R. 417, particularly at pp. 433, 434.

(7) (1932) 16 Tax Cas. 532.

(8) (1931) A.C. 224.



income in question in the present case is income from property, not from personal exertion. [He referred to *R. v. McCaughey* (1); *Premier Automatic Ticket Issuers Ltd. v. Federal Commissioner of Taxation* (2); *Tariff Reinsurances Ltd. v. Commissioner of Taxes (Vict.)* (3); *James Fenwick & Co. Ltd. v. Federal Commissioner of Taxation* (4).]

*Ham K.C.* and *Fullagar K.C.* (with them *Dean*), for the respondent.

*Ham K.C.* The royalties were not payments for the use of the blueprints; although it was contemplated that these would ultimately be returned to the respondent, there was no covenant that they should be taken care of and/or not destroyed or damaged by the Australian company. The respondent was not carrying on any profit-making business in Australia; it had no control or supervision of the Australian company's operations, and it had not, in any relevant sense, any property in Australia. The *Studebaker Case* (5) is directly in point, and it supports the judgment appealed from. Other material decisions are *Commissioner of Taxation (N.S.W.) v. Premier Automatic Ticket Issuers Ltd.* (6); *Tariff Reinsurances Case* (7); *Commissioners of Taxation v. Kirk* (8).

*Fullagar K.C.* The basis of the decision in *Nathan's Case* (9), appears at pp. 190, 191 of the report. The respondent had no property, industrial or otherwise, in Australia in respect of which it could grant a licence to the Australian company. The agreements were in substance for the supply of information, and the communication of the necessary information and the ancillary acts of the respondent did not bring into existence in, or bring to, Australia anything which could be regarded as property of the respondent.

*Eager K.C.*, in reply.

*Cur. adv. vult.*

The following written judgments were delivered:—

LATHAM C.J. This is an appeal from a judgment of *Starke J.* allowing an appeal from an assessment of the respondent company, the United Aircraft Corporation, to income tax under the Commonwealth *Income Tax Assessment Act 1936-1940* in respect of income derived during the twelve months ended 30th June 1940. The

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(1) (1906) Q.S.R. 257.

(2) (1933) 50 C.L.R., per *Rich J.*, at p. 285; per *Starke J.*, at p. 290.

(3) (1938) 59 C.L.R. 194, at pp. 204, 216, 218.

(4) (1921) 29 C.L.R. 164.

(5) (1921) 29 C.L.R. 225.

(6) (1933) 50 C.L.R. 304: See p. 311.

(7) (1938) 59 C.L.R., per *Latham C.J.* at pp. 204-207, *Rich J.* at p. 209, *Dixon J.* at p. 217.

(8) (1900) A.C. 588.

(9) (1918) 25 C.L.R. 183.



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company has been assessed to income tax upon an amount of £5,092 paid to it by Commonwealth Aircraft Corporation Pty. Ltd. under an agreement between the companies made on 6th April 1937.

The United Aircraft Corporation is a company incorporated in the State of Delaware in the United States of America which carries on business there as the manufacturer and seller of, *inter alia*, aeroplane engines. This company will be referred to as the American company. Commonwealth Aircraft Corporation Pty. Ltd., which will be referred to as the Australian company, is a company incorporated in Victoria which manufactures aeroplanes. On 6th April 1937 the companies made an agreement in New York. In form the agreement consisted of a grant by the American company to the Australian company of a licence to manufacture aeroplane engines of the type described in the agreement for a period of five years ending on 5th April 1942, with a provision for extension for a further five years. The agreement professes to grant rights to use Australian patents and registered designs and it contains a number of provisions relating to such patents and designs. The American company, however, did not in fact own any Australian patents or any designs registered in Australia. The American company agreed to deliver to the agent of the Australian company in New York drawings and specifications of the engine, together with manufacturing equipment, including patterns, dies, machines, tools, jigs, fixtures, gauges, &c. The patterns, &c., were to be paid for at prices to be agreed. The American company agreed to allow six technicians of the Australian company to visit its factory for the purpose of obtaining information, and further agreed to give to the Australian company such information and advice as might be reasonably required by it to enable it to manufacture the parts of the engine which were manufactured by the American company. The American company also agreed to lend a skilled engineer for a year to the Australian company, such engineer to be paid by the Australian company. In accordance with the agreement, drawings, manufacturing equipment, &c., were delivered in New York, and the Australian company duly paid for the equipment. Information and advice were given as required and one of the engineers of the American company came to Australia, where he worked for the Australian company, being paid by the Australian company.

The agreement provided that the Australian company should, in consideration of "the rights granted to the licensee," pay 25,000 dollars at or before the execution of the agreement and a further sum of 25,000 dollars upon the delivery of drawings and specifications. These sums have not been assessed as part of the income of the



American company. The agreement further provided that the "licensee" should pay royalties of 500 dollars for each "licensed engine regardless of whether or not such licensed engine is or will be sold leased used or otherwise disposed of," together with further sums for extra or spare parts. The agreement also contained a provision that in each six months the licensee should pay not less than 5,000 dollars to the American company. This sum, it was provided, was to be a minimum payment for each six months, but was to be credited to the royalty account, and in all the maximum sum payable as minimum royalties during the five year period of the agreement was a total sum of 40,000 dollars. All payments were to be made in "New York funds." Thus the Australian company was bound to pay in New York to the American company a minimum sum of 10,000 dollars in each year, even though it manufactured no engines. In the income period in question the sum paid by the Australian company to the American company exceeded the minimum sum.

The company is a non-resident within the meaning of the *Income Tax Assessment Act*: See definition of "non-resident" in s. 6. The assessable income of a non-resident taxpayer includes the gross income "derived directly or indirectly from all sources in Australia, which is not exempt income" (s. 25). The question which arises upon this appeal is whether the sum of £5,092 paid in American currency in New York in pursuance of the terms of the agreement was income of the American company derived directly or indirectly from a source in Australia.

The agreement purports to grant a licence to manufacture engines of a certain description. But in fact no licence was granted by the agreement. A licence provides an excuse for an act which would otherwise be unlawful as, for example, an entry upon a person's land, or the infringement of a patent or copyright. It is an authority to do something which would otherwise be wrongful or illegal or inoperative: See *Byrne's Law Dictionary*—sub "licence." The American company had no patents in Australia and had no right to manufacture engines in Australia other than that possessed by every person in the world. Any person could, without infringing any right of the American company, have manufactured the engines in question in Australia if he had the necessary knowledge, skill, and means of manufacture. The agreement was in reality an agreement for the communication of information which would facilitate the manufacture of the engines in Australia. The American company communicated the information in New York and it received payment in New York.

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Part of the money paid to the American company during the relevant period (10,000 dollars) was payable irrespective of the manufacture of any engines. So far as portion of the money became payable by reason of the manufacture of engines, that money was not derived from the manufacture of the engines. It was the Australian company which manufactured the engines and when it sold them it derived income from its operations, but the American company derived no income from those operations. The manufacture of engines in Australia was a condition upon the occurrence of which money became payable to the American company, but it does not follow that the money received by the American company was derived from the acts which constituted the performance of the condition. Money may become payable under a contract upon the expiry of a period, or upon the death of a person, or upon the occurrence of a natural event such, for example, as a fire or flood; but it would be a misuse of language to say that the money which so became payable was derived from the expiry of the period or from the death of the person or from the fire or flood.

Before the agreement was made and after the agreement was made the American company owned no property in Australia of any kind. The making and the performance of the agreement did not vest in the American company any property in Australia. It owned no rights which could be regarded as located in Australia. It did not derive income from any property in Australia.

It was argued that the American company transferred to the Australian company information to be used by that company in Australia for a minimum period of five years. It was said that this amounted to a transfer of property—a kind of bailment for five years. I am unable to regard the communication of information as constituting a transfer of property. Upon such a communication the transferor still has everything that he had before and the transferee continues to have what he has received even though the five year period has elapsed, though he may be prevented from using the information, if a covenant not to use it throughout the indefinite future is not invalid as in unreasonable restraint of trade.

Knowledge is valuable, but knowledge is neither real nor personal property. A man with a richly stored mind is not for that reason a man of property. Authorities which relate to property in compositions, &c., belong to the law of copyright and have no bearing upon the question whether knowledge or information, as such, is property. It is only in a loose metaphorical sense that any knowledge as such can be said to be property. Either all knowledge is property, so that the teaching of, for example, mathematics, involves



a transfer of property, or only some knowledge is property. If only some knowledge is property then it must be possible to state a criterion which will distinguish between that knowledge which is property and that knowledge which is not property. The only criterion which has been suggested is the secrecy of the knowledge—it is said that the fact that knowledge is secret in some way creates a proprietary right in that knowledge. I confess myself completely unable to appreciate this proposition as a legal statement. It is obvious that a monopoly of knowledge may be valuable, whether it be knowledge of a place where a person has discovered gold or knowledge of a method or process of making a machine or a chemical product, or of a means of deciphering cryptograms. But is such property knowledge only so long as it is secret? Does it cease to be property when it is communicated to one other person or to two other persons or to two hundred other persons? The value of secret knowledge as such depends upon ability to keep it secret and to use it and the possibility of persuading other people to pay for being let into the secret. These facts, however, do not show that the knowledge is property in any legal sense. However, in the present case there is no evidence whatever that any secret process exists. What the Australian company obtained was information in the form of drawings, designs and other information which would be of service in manufacturing aeroplane engines. Such knowledge was most valuable to those who wished to make aeroplane engines of a particular type. But it cannot in my opinion be described as the property either of the persons who originally had it or of other persons to whom it has been communicated, whether under and in pursuance of a contract or otherwise.

A person may be bound by contract express or implied to abstain from disclosing certain information to others. Such a contract may be enforced by an award of damages or by injunction. Persons who persuade a contracting party to break a contract, including a contract not to disclose information, are guilty of a wrong, but this wrong does not depend upon any interference with property owned by a plaintiff; it depends upon interference with contractual relations: See *Lumley v. Gye* (1); *Quinn v. Leathem* (2). All persons are perfectly free to acquire knowledge, even though that knowledge may at a given time be knowledge possessed by another person which he is keeping secret. Subject to provisions contained in patent and copyright law, persons are entitled to use as they please any knowledge that they have unless they are bound by contract express or implied not to use it, or have acquired it by means of a violation of right—as

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(1) (1853) 2 E. & B. 216 [118 E.R. 749].

(2) (1901) A.C. 495, at p. 510.



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in *Albert (Prince) v. Strange* (3). A and B cannot, by making a contract between themselves, prevent any other person C from using his own faculties and skill in acquiring knowledge and in using knowledge. If C is a stranger to A and B and has had no dealings with either of them it is irrelevant for all legal purposes that A has contracted to disclose that knowledge only to B, and that B has contracted not to disclose it to any other person. In my opinion knowledge cannot be described as property except in a metaphorical sense.

Property is one possible source of income. The work of persons or acts done by persons are other possible sources of income. I do not forget that in Commonwealth income tax law the distinction between income from property and income from personal exertion is largely a matter of terms. Income derived from property is defined so as to include all income which is not income derived from personal exertion. Companies are taxed under the *Income Tax Acts* upon their income with no distinction between income derived from personal exertion and income derived from property. But I have not been able to think of any sources of income other than property and acts done. If a person has rights over property or in relation to property he may derive income from that property. The American company had no such rights in Australia. If a person by himself or by his servants or agents does work of some kind or acts in some way, he may derive income from that work or act, but the American company did nothing in Australia. Income derived from property means, in my opinion, income derived from the property of the person sought to be taxed as having derived the income. So also the income of a person derived from acts done is income derived by that person from his own acts or from the acts of his servants or agents. If such a person, being a company, has no servants or agents in Australia, it cannot, in my opinion, derive income from any acts done in Australia. A person who neither owns anything in a country nor does nor has done anything in that country cannot, in my opinion, derive income from that country.

There is a provision in the agreement that upon the termination of the agreement the Australian company shall "return" to the American company drawings, blueprints, specifications, &c., then in its possession or power with respect to the licensed engine, subject to a proviso that the licensee may retain two sets of blueprint drawings. If, upon the termination of the agreement, the Australian company still had some of the drawings which had been delivered to it by the American company, it would be under an obligation to



return them, subject to the proviso. But there is no provision that the drawings shall continue to be the property of the American company. Even if there were such a provision, it could not be said that the moneys payable under the terms of the agreement upon the manufacture of engines were derived from property consisting of blueprints, drawings, &c.

Thus, in my opinion it is impossible to point to any source in Australia which can be described as the source of the £5,092 paid to the American company. The American company did nothing in Australia and owned no property in Australia. That which produced the income of the American company was the agreement made in New York, together with the performance of that agreement, which took place in America. In my opinion it can be truly said in this case, as in *Studebaker Corporation of Australasia Ltd. v. Commissioner of Taxation (N.S.W.)* (1), that the income in question "arises from business transacted and wholly carried out in America." See also *Premier Automatic Ticket Issuers Ltd. v. Federal Commissioner of Taxation* (2), and *Tariff Reinsurances Ltd. v. Commissioner of Taxes (Vict.)* (3).

In my opinion the decision of *Starke J.* was right and the appeal should be dismissed.

RICH J. The question for our consideration on this appeal is whether the sum of £5,092, being the aggregate of the sums of £1,559 0s. 4d. and £3,533 17s. 3d. paid to the respondent company pursuant to s. 1 of article IV. of the agreement, is assessable to tax for the twelve months ended 30th June 1940.

The *Income Tax Assessment Act 1936-1940* applies the criterion of territoriality to the assessment of the income of a non-resident company such as the respondent is, in the words "derived directly or indirectly from all sources in Australia" (s. 25 (1) (b)). The phrase "directly or indirectly" is related to the word "derived" and not to the word "sources" (per *Evatt J.*, *Federal Commissioner of Taxation v. W. Angliss & Co. Pty. Ltd.* (4)). "Source" is not a technical term but, as the context shows, is used as a metaphorical expression. "Source" means not a legal concept, but something which a practical man would regard as a real source of income; "the ascertaining of the actual source is a practical hard matter of fact" (*Overseas Trust Case* (5); *Liquidator Rhodesia Metals Ltd.*

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(1) (1921) 29 C.L.R., at p. 233.

(2) (1933) 50 C.L.R., at pp. 286, 292, 297.

(3) (1938) 59 C.L.R., at pp. 205, 206, 209, 211, 217.

(4) (1931) 46 C.L.R., at p. 441.

(5) (1926) S.Af.L.R. (A.D.) 44.



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v. *Commissioner of Taxes* (1)). In the latter case *Studebaker Corporation of Australasia Ltd. v. Commissioner of Taxation* (N.S.W.) (2) is cited by their Lordships without criticism (3). At an earlier date than the South African decision, *Isaacs J.*, as he then was, anticipated these statements in the South African case in a passage in *Nathan v. Federal Commissioner of Taxation* (4), which was subsequently adopted in *Studebaker Corporation of Australasia Ltd. v. Commissioner of Taxation* (N.S.W.) (5). In *Tariff Reinsurances Ltd. v. Commissioner of Taxes* (Vict.) (6) I explained how I understood the phrase in the following passage: "This means, I suppose, that every case must be decided on its own circumstances, and that screens, pretexts, devices and other unrealities, however fair may be the legal appearance which on first sight they bear, are not to stand in the way of the court charged with the duty of deciding these questions. But it does not mean that the question is one for a jury or that it is one for economists set free to disregard every legal relation and penetrate into the recesses of the causation of financial results, nor does it mean that the court is to treat contracts, agreements and other acts, matters and things existing in the law as having no significance." As the question to be determined in this case is a question of fact a decision on one set of facts is not binding and is often of little help on another set of facts. In *Premier Automatic Ticket Issuers Ltd. v. Federal Commissioner of Taxation* (7) and *Tariff Reinsurances Ltd. v. Commissioner of Taxes* (Vict.) (8)—cases which may, perhaps, be regarded as borderline cases—the court considered that, on the facts in each case, the contract should be regarded as the sole source of income and that therefore the locus of the contract was the locus of the source. But it does not follow that, in every case where a contract is one of the sources, the contract should be regarded as the sole source: Cf. *Commissioner of Taxation v. Cam & Sons Ltd.* (9)—a case which contains an interesting discussion of the principles germane to the question in this appeal. The question then is whether the source of the sum in question is within Australia.

The facts are set out in the "mutual admissions of facts" and the annexures thereto and sufficiently summarized in the judgment of the Chief Justice and I shall not stuff the record by rehearsing them. It is, I think, necessary to emphasize the fact that at no material

(1) (1940) A.C. 774, at p. 789.

(2) (1921) 29 C.L.R. 225.

(3) (1940) A.C., at p. 788.

(4) (1918) 25 C.L.R., at pp. 189, 190.

(5) (1921) 29 C.L.R., at p. 233.

(6) (1938) 59 C.L.R., at p. 208.

(7) (1933) 50 C.L.R. 268.

(8) (1938) 59 C.L.R. 194.

(9) (1936) 36 S.R. (N.S.W.) 544, at pp. 548, 549; 53 W.N. 172, at p. 173.



time has the respondent company owned or had any interest in any patents in Australia for or in respect of the licensed engines or spare parts referred to in the agreement annexed to the admissions: See clause 12 of the admissions. The terms, wherever occurring, of "licence," "licensed" and "royalties" are not referable to any patent. And there is no evidence implicating the respondent company in any agency or profit-sharing transaction or division of net earnings. It has no part nor lot in the Australian company's business. Although property exists in the plans and drawings, &c., supplied to the Australian company, the moneys in question, part of the consideration paid to the respondent company, cannot be regarded as derived from property used by the latter company or on its behalf in Australia. These moneys were derived not from the pieces of paper, but from the supply in America of the information recorded on the pieces of paper, information which was capable of being used in Australia or elsewhere. If a person purchased a car from another in New York on credit, with the intention of taking it to Australia and there using it as a taxi, the fact that he discharged his indebtedness out of the proceeds of his taxi business remitted by him from Australia would not make the moneys received in America by the seller moneys derived by him from property in Australia in any relevant sense. In the instant case the taxpayer received two sorts of payments, one obviously in respect of the contracts alone and things done under it in America, and the other in respect of things done under it in America and in Australia. The former payments are clearly not derived from a source in Australia. Their source may be regarded as substantially the contract. There would be no more justification for saying that their source was of Australian origin than for saying that an American shopkeeper who sells an Australian tourist an article in New York derives income from a source in Australia because the tourist paid for it out of income which he had received in Australia. It would make no difference if the shopkeeper gave him credit and he remitted the price from Australia. But in relation to the other payments which are called royalties the source as a question of fact should, I think, be regarded partly as the contract and partly things done in pursuance of the contract. These things included the handing over in America by the American company to the Australian company of property belonging to the American company; the user in accordance with the contract by the Australian company of this property or its rights in the same in Australia; the payment in America by the Australian company for the user in Australia of this property or the rights therein by that company. I am not prepared to draw

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from these facts the conclusion that the payment of the so-called royalties was a payment derived from a source in Australia. I think that the relevant facts, including the making of the contract, suggest that these payments had an American and not an Australian source. And the fact that moneys were called royalties or were to be paid into what was called a royalty account does not alter the character of the moneys or affect the source from which they came. And I might also add that, in my opinion, the facts I have referred to do not support any case for apportionment, as to which see *Commissioner of Taxation (N.S.W.) v. Hillsdon Watts Ltd.* (1), and cases there cited. It is also important to note that the plans—the property in question—had no fixed locality but were allowed to be in Australia by the American company for the purposes mentioned in the agreement for a definite period at the end of which, subject to any further agreement, they would return to their former habitation in America.

I consider that the reasoning in the numerous decisions of this Court on similar questions supports my judgment in this case.

For these reasons I am of opinion that the appeal should be dismissed.

WILLIAMS J. On 6th April 1937 an American corporation, United Aircraft Corporation (hereinafter called the American corporation), made an agreement in writing with an Australian company, Commonwealth Aircraft Corporation Pty. Ltd. (hereinafter called the Australian company) in America for the granting by the American corporation to the Australian company of certain contractual rights which are referred to in the agreement as a licence for the Australian company to manufacture what is called the licensed engine, which is defined to mean the single-row, air-cooled, nine cylinder, fixed radial, poppet-valve engine of 1340 cubic inch displacement equipped with carburettors for the use of gasoline and with magnetos as an ignition system, as now manufactured by Pratt & Whitney aircraft division of the American corporation under the designation of Wasp Series H-1. This agreement was supplemented by two letters written by the American corporation to the Australian company on 5th and 6th April 1937 and amended by an agreement in writing dated 13th May 1937 made between the parties.

The agreement is wide enough to include a licence for the Australian company to use any inventions relating to the licensed engine, the subject matters of letters patent owned by the American corporation in Australia, but the American corporation does not in fact



own any such patents for or in respect of the licensed engine or spare parts referred to in the agreement.

On or about 22nd February 1938 the Australian company commenced the manufacture in Australia of the licensed engine as that term is defined in the agreement and it has continued so to do during the year ended 30th June 1940 and in subsequent years. During the year ended 30th June 1940 the Australian company paid to the American corporation the sum of £5,092 in respect of the sums called royalties in article IV., s. 1 (b), of the agreement. The appellant, the Commissioner of Taxation of the Commonwealth of Australia, claimed that the American corporation was liable to pay income tax on this amount under the provisions of the *Income Tax Assessment Act* 1936-1940 and assessed the American corporation in the sum of £513 16s. The American corporation appealed to this Court and my brother *Starke* ordered that the assessment should be quashed. The Commissioner of Taxation has now appealed to the Full Court against this order.

The agreement contains seven articles.

Article I. authorizes the Australian company to manufacture the licensed engine in the licensed territory, which means the Commonwealth of Australia, the Dominion of New Zealand and all that territory at the present time under the jurisdiction of the Commonwealth of Australia and the Dominion of New Zealand.

Article II. defines the licensed rights granted, which are expressed to be, subject to certain exceptions, the exclusive right, including the power to grant sub-licences, for the period of five years commencing 6th April 1937 and ending on 6th April 1942 (with an option to renew the term for five years) to manufacture, use, sell or lease or otherwise dispose of the licensed engine and spare and replacement parts thereof within the licensed territory but not elsewhere except as therein otherwise expressly provided. The right or licence granted is to include the right at all times during the continuance of the agreement to use within the licensed territory any inventions and designs relating to the licensed engine which may from time to time be covered by letters patent, or registered designs or applications therefor owned or controlled by the American corporation within the licensed territory.

Article III. provides that within ninety days from the date of the agreement the American corporation shall deliver to the agents of the Australian company in New York one complete set of Van Dyk prints (capable of reproduction), or, where Van Dyk prints are not available, duplicate copies of blueprints of all detail part drawings, bills of material, specifications and measurements covering the

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licensed engine ; and that, whenever the American corporation is so requested, it will furnish to the Australian company with reasonable dispatch complete drawings and specifications in blue-print form of all special manufacturing equipment including patterns, tools, jigs, fixtures, gauges, &c., for which the drawings exist ; and that on a similar request it will furnish with reasonable dispatch any or all standard or special manufacturing equipment including patterns, dies, machines, tools, jigs, fixtures, gauges, &c., any material and any and all such finished or partly finished parts as may be reasonably necessary for use in the manufacture of the licensed engine by the Australian company, to be delivered f.o.b. Port of New York at such prices and on such terms as the parties may agree from time to time. By this part the Australian company is also given the right at its own expense to send six technicians to visit the factory of the American corporation in America for the purpose of observing or studying the methods employed there in the manufacture and assembly of licensed engines, and in addition the American corporation agrees, whenever requested by the Australian company, to give to it such information and advice as might be reasonably required to enable it to manufacture the licensed engine and to use its best efforts at the request of the Australian company to lend to the Australian company at its factory, for a period of at least a year, at least one skilled engineer thoroughly familiar with the manufacture, assembling and testing of the licensed engine by the American corporation for employment at the Australian company's factory, the Australian company to bear and pay all salaries and expenses of any such engineer.

Article IV. provides for the payments to be made by the Australian company to the American corporation. Section 1 provides that in consideration of the rights granted to the Australian company by the agreement as set forth in article II. thereof (i.e., the exclusive licence) and of the design data to be furnished by the American corporation as set forth in s. 1 of article III. thereof (i.e., the delivery to the Australian company of the Van Dyk prints and other documents containing the drawings and specifications of the licensed engine) the Australian company agrees to make the following payments in New York funds to the American corporation :—(a) an initial payment of 50,000 dollars, and (b) as and for royalties to pay on each licensed engine and parts thereof manufactured by the Australian company or its sub-licensees (regardless of whether or not the licensed engine or part is or shall be sold, leased, used or otherwise disposed of), the following amounts :—for each licensed engine 500 dollars and for all extra or spare parts, seven and one half



per cent ( $7\frac{1}{2}\%$ ) of the American corporation's list price current at the time of manufacture.

Article V. provides that whenever during the agreement the American corporation shall make any improvements in the design or construction of the licensed engine, it will furnish without cost to the Australian company f.o.b. Port of New York full particulars of such improvements together with drawings and specifications disclosing the same, that the licence granted by the agreement shall for all purposes be deemed to extend to cover all such improvements, and that if the American corporation shall apply for or receive any patents on any such improvements it will take all steps necessary to obtain patents thereon within the licensed territory and the licence granted to the licensee in the agreement shall be deemed to embrace any such patents.

Article VI. contains what are called the special agreements of the licensee, and includes an agreement that whenever the Australian company or any of its sub-licensees shall make any improvement in the design or construction of the licensed engine, the Australian company shall without cost to the American corporation furnish to it full particulars of such improvement together with drawings and specifications disclosing the same and that all rights in and to such improvements shall, subject to the licence granted by the agreement, vest in the American corporation to the same extent and for all intents and purposes as if it had made such improvements. By s. 5 the Australian company agrees not to manufacture, license, sell or otherwise dispose of during the term of the licence granted by the agreement or at any time after its termination, any aeronautical engine embodying the same or substantially similar design as the licensed engine other than such engines or parts thereof as may be manufactured pursuant to the licence granted by the agreement. By s. 6 the Australian company agrees that it shall not at any time disclose or permit its sub-licensees to disclose to any person outside the licensed territory any design, data, technical or other information of any character relating to the design or manufacture of licensed engines, whether such information be received from the American corporation or any of its officers, agents or employees, or shall be derived from any experience gained by the Australian company in manufacturing licensed engines, and that the Australian company shall not at any time disclose or permit its sub-licensees to disclose any such information to any person within the licensed territory other than any person or persons at the time exercising rights under a sub-licence from the licensee, with a proviso that the licensee shall not be liable for any unauthorized disclosure of any such

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information made by any of its employees or any other person without the consent or approval of the licensee. Article VII. authorizes the American corporation to terminate the agreement, *inter alia*, if the Australian company shall either default in any payment or if it shall fail to make at least one licensed engine during the twelve months period ending on 1st October 1938 or during any other twelve months period ending on any 1st October thereafter.

The *Income Tax Assessment Act* 1936-1940 defines what is comprised in "income from personal exertion" in considerable detail, and then defines "income from property" or "income derived from property" to mean all income not being income from personal exertion. In these definitions no attempt is made at technical legal accuracies. In *Visbord v. Federal Commissioner of Taxation* (1), my brother *Starke* said:—"Subject to any express direction contained in the Acts the ascertainment of income must be 'dealt with on business lines,' and the method pursued must depend upon the circumstances of the particular case; See *Federal Commissioner of Taxation v. Thorogood* (2); *Commissioner of Taxes (S.A.) v. Executor Trustee and Agency Company of South Australia Ltd.* (3)."

It is not contended that the American corporation is resident in Australia within the meaning of the Act, so that the corporation is taxable, if at all, as a non-resident. The Act, s. 25 (1), provides that the assessable income of a taxpayer shall include (b) where the taxpayer is non-resident the gross income derived directly or indirectly from all sources in Australia, which is not exempt income.

It is not contested that the royalties are income within the meaning of s. 26 (f) of the Act, so that, if they are derived from a source in Australia, the amount of £5,092 is assessable income of the appellant.

It has been held by this Court in several cases, commencing with *Nathan v. Federal Commissioner of Taxation* (4) and concluding with *Tariff Reinsurances Ltd. v. Commissioner of Taxes (Vict.)* (5), and this view has now been upheld by the Privy Council in *Liquidator Rhodesia Metals Ltd. v. Commissioner of Taxes* (6), that the determination of the source of income is a "practical hard matter of fact." In the present case the agreement was made in America, all the information and equipment which the American corporation agreed to supply are to be supplied in America, and all the payments which the Australian company agreed to make are to be paid in America, so that it is contended that every part of the source of the right of

(1) *Ante*, p. 354, at p. 377.

(2) (1927) 40 C.L.R. 454, at p. 457.

(3) (1938) 63 C.L.R. 108, at p. 154.

(4) (1918) 25 C.L.R. 183.

(5) (1938) 59 C.L.R. 194.

(6) (1940) A.C. 774.



the American corporation to payment of royalties is in fact in *America*. This contention was upheld by my brother *Starke*.

In ascertaining source account must be taken of the fact that at the present day the element of contract is involved in most receipts by way of income unless they are derived from public or private bounty and the royalties now in question are no exception from this general rule. The importance of the contract element in the derivation of any particular set of receipts depends upon the circumstances. In some cases it may be the only important element, so that the locus of the making of the contract is the locus of the source of the receipts. In others it may be relatively unimportant, so that the place where the contract was made is negligible in determining the locus of the source. In others again the facts may be such as to necessitate attribution of part of the receipts to the locus of the making of the contract and of part of them to some other locus as a source (*Federal Commissioner of Taxation v. W. Angliss & Co. Pty. Ltd.* (1); *Commissioner of Taxation (N.S.W.) v. Hillsdon Watts Ltd.* (2)). A decision as to the locus of the source upon one set of facts, although it may be authoritative for any principles of law which may be laid down, is no authority for determining the fact of source upon other and different facts. To adopt the words of the Chief Justice in *Tariff Reinsurances Ltd. v. Commissioner of Taxes (Vict.)* (3):—"It is a question of fact whether income (or profits) is derived from a particular country. In *Federal Commissioner of Taxation v. W. Angliss & Co. Pty. Ltd.* (4) my brother *Starke* sets out and examines a number of cases which have dealt with this subject. It is there shown that the question which arises is really a question of fact and that no absolute rule of law can be stated the application of which will make it possible to determine all cases." This must be determined in every case by what "a practical man would regard as a real source of income" (*Nathan v. Federal Commissioner of Taxation* (5)), and, as *Higgins J.* pointed out in *Mount Morgan Gold Mining Co. Ltd. v. Commissioner of Income Tax (Q.)* (6), the source from which income is derived or the place where it is earned is not necessarily identical with the place where the business is carried on.

The agreement provides for two kinds of payment to the American corporation: (1) the payment of a lump sum of 50,000 dollars, 25,000 dollars upon the execution of the agreement and 25,000 dollars upon the disclosure of the information how to manufacture

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(1) (1931) 46 C.L.R., at pp. 434, 435.

(2) (1937) 57 C.L.R. 36.

(3) (1938) 59 C.L.R., at p. 205.

(4) (1931) 46 C.L.R., at pp. 421 et seq.: See especially at p. 423.

(5) (1918) 25 C.L.R., at p. 189.

(6) (1923) 33 C.L.R. 76, at pp. 93, 94.



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the licensed engine, and (2) payment of royalties of 500 dollars every time that the information is used by the Australian company or its sub-licensees to manufacture an engine, and of  $7\frac{1}{2}$  per cent on the price of all extra or spare parts charged by the American corporation at the time of manufacture by the Australian company.

If a manufacturer has ascertained the manner in which an intricate chattel, such as an aeronautical engine, comprising many component parts and requiring special plant and machinery, can be manufactured, he has acquired with respect to a particular subject matter a special knowledge that can have great value. If that knowledge is to be made available to others for manufacturing purposes, it must be described and illustrated in many specifications and drawings. If it is a new manner of manufacture within the meaning of the *Statute of Monopolies*, it is an invention which can be made the subject matter of letters patent. As consideration for the disclosure the manufacturer can then acquire a monopoly for sixteen years under the *Patents Act*. But, supposing that the knowledge is not such that it is patentable, or that, although the knowledge or some of it is patentable, it is such that it would have to be made the subject matter of numerous patents, and the manufacturer is not prepared to go to the trouble and expense of applying for letters patent all over the world, he can still retain a monopoly in fact in his knowledge by only disclosing the manner of manufacture under such circumstances that those to whom it is disclosed are under an obligation, express or implied, only to use the knowledge for the purposes for which it has been disclosed to them: See the judgment of *Romer L.J.* in *Handley Page v. Butterworth* (1).

If the party to whom the disclosure is made, in breach of the contract, threatens and intends to disclose the information, equity will restrain the threatened wrong by an injunction. If he has disclosed the information, the other party can sue the wrongdoer and the person to whom the disclosure was made for an injunction to prevent any use being made of the disclosure, or he can sue the wrongdoer for damages for breach of contract at common law.

If the disclosure relates to an invention that is patentable, and the person to whom the disclosure has been made wrongly uses the information to acquire letters patent for the invention, equity will declare that he is a trustee of the letters patent for the person who has made the disclosure, and, subject to the plaintiff recouping the defendant for the expenses which he has incurred in acquiring the letters patent, will order the defendant to assign the patent to the plaintiff. If a third party, knowing that a person is under an obligation not to disclose confidential information, is seeking wilfully to

(1) (1935) 19 Tax Cas. 328, at pp. 359, 360.



induce such a disclosure, equity will restrain the threatened disclosure by an injunction; or, if the third party has wilfully induced him so to do, the person who disclosed the information can sue the third party for an injunction to prevent him using the knowledge or for damages for wilfully procuring a breach of contract. It is immaterial for the purpose of this judgment finally to decide the extent of the right against third parties, but it would appear that they would be liable except where they could prove that they had come by the knowledge honestly (*Tipping v. Clarke* (1); *Albert (Prince) v. Strange* (2); *Summers (William) & Co. Ltd. v. Boyce & Kinmond & Co.* (3); *Robb v. Green* (4); *Rex Co. v. Muirhead* (5); *Kerr on Injunctions*, 6th ed. (1927), p. 487).

As between the party who makes the disclosure and the party to whom the disclosure is made the rights are in general contractual, but third parties are placed in effect in an analogous position to other third parties in equity where contracts create rights of a proprietary nature in that they can only acquire a better title than the party recognized by the contract to be the owner of the proprietary rights if they can establish that they are bona fide purchasers for value without notice. In *Rex Co. v. Muirhead* (6) *Clauson J.* (as he then was) went even further when he said:—"The case of *Albert (Prince) v. Strange* (7) established this proposition to my mind quite fully: that a stranger, who quite innocently and properly finds himself in possession of information which the plaintiff is entitled as matter of property to protect from disclosure to the public, will be restrained by this Court from disclosing that information, notwithstanding it may have come to him perfectly properly." In several cases the ownership of such knowledge has been referred to as property. For instance, see *Morison v. Moat* (8); *Green v. Church* (9) (where a secret process was settled); *Lamb v. Evans* (10); *Robb v. Green* (11); *In re Keene* (12) (where a secret process was held to be the property of a bankrupt); *Reid & Sigrist Ltd. v. Moss & Mechanism Ltd.* (13); *Triplex Safety Glass Co. Ltd. v. Scoriah* (14); *British Industrial Plastics Ltd. v. Ferguson* (15). In *Handley Page v. Butterworth* (16) in the House of Lords Lord Tomlin,

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(1) (1843) 2 Hare 383, at p. 393 [67 E.R. 157, at p. 161].

(2) (1849) 1 Mac. & G. 25 [41 E.R. 1171].

(3) (1907) 97 L.T. 505.

(4) (1895) 2 Q.B. 1, at pp. 15, 16.

(5) (1926) 44 R.P.C. 38, at p. 46.

(6) (1926) 44 R.P.C., at p. 46.

(7) (1849) 1 Mac. & G. 25 [41 E.R. 1171].

(8) (1851) 9 Hare 241, at p. 255 [68 E.R. 492, at p. 498].

(9) (1823) 1 L.J. (O.S.) Ch. 203.

(10) (1893) 1 Ch. 218, at p. 226.

(11) (1895) 2 Q.B., at p. 16.

(12) (1922) 2 Ch. 475 (C.A.).

(13) (1932) 49 R.P.C. 461, at p. 480.

(14) (1937) 55 R.P.C. 21, at pp. 28, 29.

(15) (1940) 58 R.P.C. 1, at p. 7 (H.L.).

(16) (1935) 19 Tax Cas., at p. 327.



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in referring to designs for certain types of bomber aeroplanes which were not capable of being registered or being the subject of letters patent, said :—" In such a design there is no legal monopoly or property. There is property, no doubt, in the drawings and plans in which it is embodied, and if the design is kept secret it may be protected by those remedies which are available against breaches of confidence." But, as *Hawkins J.* pointed out in *Robb v. Green* (1), it is the information that is valuable and the mere property in the documents (apart from the information they contain) is nothing.

In the present case the knowledge that the American corporation agreed to disclose to the Australian company was in the main embodied in the specifications and drawings referred to in the agreement, and the agreement states specifically that it was for the use of this information embodied in the specifications and drawings coupled with the exclusive manufacturing rights in Australia that the Australian company agreed to pay the sums set out in article IV., s. 1, thereof, so that, having regard to the provisions of the agreement, the information contained in such specifications and drawings would be property as defined by Lord *Tomlin* and protected in the manner which he described.

These considerations all show that, although the rights arise out of contractual or fiduciary relations between individuals, the consequences which flow from that relationship both with respect to the parties to the contract and third parties are such that they may fairly be described, if not in a technical sense, at least in a business sense, as proprietary rights. They have been described as property in a business sense in tax cases : *Delage v. Nugget Polish Co. Ltd.* (2) ; *British Dyestuffs Corporation (Blackley) Ltd. v. Inland Revenue Commissioners* (3).

Provisions of the agreement which show that the source of the income is the exclusive use of what the parties regard as the property of the American corporation in Australia are (1) that the parties agree that a licence to manufacture in Australia is necessary ; (2) that the licence granted is, subject to exceptions, an exclusive licence for Australia and New Zealand : as there could be in a practical sense no other competition except from the American corporation this was in fact as exclusive a licence as the American corporation could have conferred by the exercise of patent rights ; (3) that the Australian company agrees that any manufacturing improvements which it may discover in the course of using that knowledge are to be, like the original information, the property of

(1) (1895) 2 Q.B., at p. 16.

(2) (1905) 92 L.T. 682.

(3) (1923) 129 L.T. 538.



the American corporation, and that it is only to have the same limited rights to use the improvements that it has to use the original information; and (4) that the Australian company agrees that on the termination of the licence it will not continue to manufacture the licensed engine. Provisions which show that the disclosure of the information is confidential are those clauses which show that the information is only to be used by the Australian company for a limited time, namely, the period of the contract or of its extension, and that any design, data, technical information or other information of any character relating to the design or manufacture of the licensed engine, whether such information is received from the American corporation or is derived from experience gained by the Australian company in manufacturing the licensed engine, shall not be disclosed to any persons outside the licensed territory, and that the Australian company shall not disclose (which must mean by its agents or employees) or permit its sub-licensees to disclose any information to any persons within the licensed territory other than a person or persons at the time exercising rights under sub-licences, with a proviso that the licensee shall not be liable for any unauthorized disclosure made by any of its employees or any other person without the consent or approval of the licensee.

The agreement provides, therefore, for the communication of the knowledge to the Australian company on the basis that the information is to remain the property of the American corporation and is only to be used by the Australian company in the area, to the extent, and for the period allowed by the American corporation. The American corporation can restrain the manufacture of the engines by the Australian company except pursuant to the terms of the agreement (*Lamb v. Evans* (1)). It can put an end to the agreement if the Australian company fails to make at least one licensed engine during each annual period of twelve months ending 1st October, or if the Australian company makes default in the quarterly payments of royalties.

The question is whether, in these circumstances, the source of the payment of the royalties to the American corporation is, in a practical business sense, the making of the agreement in America and the acts done by the American corporation in the performance of the agreement in America, or the manufacture of the engines in Australia in the manner contemplated by the agreement, or partly the one source and partly the other. On each occasion that the Australian company manufactures an engine, it uses in Australia information supplied to it by the American corporation for use in Australia

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subject to the payment of a royalty for the use of the information on that occasion.

It is more than a case of a company carrying on business in Australia becoming liable, each time that an event happens, to make a payment to a corporation carrying on business in America under a contract made in America.

The whole conventional basis of the agreement is that the American corporation has made the Australian company the usufructuary in Australia for a limited period of knowledge which is capable of being regarded, at least in a business sense, as the property of the American corporation. It is this valuable knowledge "which represents, so to speak, the capital fund which produces the income" (*Nathan v. Federal Commissioner of Taxation* (1)). To adopt the words of Rowlatt J. (as he then was) in *British Dyestuffs Corporation (Blackley) Ltd. v. Inland Revenue Commissioners* (2), the American corporation "is really using the property . . . and taking an annual return for it." This profitable use is in Australia. If royalties have to be paid from Australia in respect of the exercise in Australia of a licence to use a process here, it is difficult to understand why, in a practical business sense, the royalties should be regarded as derived from a source in Australia if the process is patented, but as not so derived if it is not. If a process has been patented it is clear that the source would be the right to the exclusive future use of the information in Australia: See the cases referred to in the judgment of Macnaghten J. in *Beare v. Carter* (3). In *Rees Roturbo Development Syndicate Ltd. v. Inland Revenue Commissioners* (4) (when that case was in the Court of Appeal), Scrutton L.J. said: "The licensor cannot, having granted an exclusive licence, make any money out of the patent in the district of the licence, except from the licensee under the licence." In *British Dyestuffs Corporation (Blackley) Ltd. v. Inland Revenue Commissioners* (2) Rowlatt J. (as he then was) treated the patents and the secret processes as being on the same footing. He said: "The real essence of it is this, that you have got here patented and secret processes; you can use them in this territory and in that territory . . . and all that has been done here is to use this American company practically as a licensee." In each case, as was pointed out by Phillimore J. (as he then was) in *Delage v. Nugget Polish Co. Ltd.* (5), the recipients are receiving a sum of money "which they only gain because profitable work has been done in this country or because work has been done in this country."

(1) (1918) 25 C.L.R., at p. 189.

(3) (1940) 2 K.B. 187, at pp. 191-193.

(2) (1923) 129 L.T., at p. 542.

(4) (1928) 1 K.B. 506, at p. 515.

(5) (1905) 92 L.T., at p. 685.



It is also not altogether irrelevant to point out that in *Inland Revenue Commissioners v. Muller & Co.'s Margarine Ltd.* (1), where the House of Lords held that intangible rights regarded as property, such as goodwill, are capable of having a local situation, Lord *Halsbury*, who only dissented from the majority of the House in that he took a narrower view, said :—"It may be very probable that in such a case there would be no goodwill of the business, or very little, but the mere fact that the business was practically, or altogether, local would not make the goodwill of the business simply local, unless by the contract of sale it was confined to a particular spot."

If it were possible to manufacture an engine from its component parts by putting them into a mechanical device in the same way as the battery box described in *Palmer v. Dunlop Perdriau Rubber Co. Ltd.* (2), and if such a device were hired by the American corporation to the Australian company to be used to manufacture engines in Australia in consideration of the payment of a lump sum and of a royalty each time the device was used to manufacture an engine, it could hardly be said that the source of the royalty was not in Australia. In a practical business sense I am unable to see any distinction between the hire of such a mechanical device and the disclosure of information how to manufacture the engine.

It is true that the agreement provides that, until 40,000 dollars should have been paid in royalties, the Australian company will pay to the American corporation on account of the royalty not less than 500 dollars for each period of six months, but such a clause, which is a guarantee that the income shall be so much, is a common clause in licence agreements. For instance, in *Wild v. Ionides* (3), *Rowlatt J.*, in referring to a similar clause in a licence to exercise a patent, said :—"It seems to me as clear as possible that this was guaranteed income in respect of the ownership of this patent" (in the present case I would substitute "information" for "patent") "which of course so far as it was used under licence took effect out of the interest of the licensor." Moreover, the American corporation is not claiming the royalties under this provision. It is claiming them under article VI., s. 1, of the agreement. The present case is distinguishable on its facts from any of the cases that were cited to us. The closest case on its facts is the *Tariff Reinsurances Case* (4). In that case it appeared that an Australian company carrying on the business of insurance in Australia took out a policy in England with an English company insuring itself against part of

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(1) (1901) A.C. 217, at p. 238.

(2) (1937) 59 C.L.R. 30.

(3) (1925) 9 Tax Cas. 392, at p. 424.

(4) (1938) 59 C.L.R. 194.



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its risks. It was held that the premiums paid to the English company were not derived by it from a source in Australia, and that the facts that the Australian company's business was an insurance business and that the premiums paid to the English company were measured by the premiums received by the Australian company did not alter the position. The fact that in that case the locus of the making of the contract of insurance with the English company was regarded as the source of the premiums does not, in my opinion, throw any light upon the source of the royalties paid to the American corporation in the present case as a consideration for allowing its manner of manufacture to be worked in Australia. Furthermore, especially since a separate consideration was paid to the American corporation for entering into the contract, I can see no reason why the whole of the royalties should not be attributed to an Australian source.

The royalties payable on extra or spare parts are, of course, in a similar position to the royalties payable on the manufacture of the engines.

For these reasons I would allow the appeal.

*Appeal dismissed with costs.*

Solicitor for the appellant, *H. F. E. Whitlam*, Crown Solicitor for the Commonwealth.

Solicitors for the respondent, *Blake & Riggall*.

E. F. H.