HIGH COURT OF AUSTRALIA

GLEESON CJ,
GUMMOW, KIRBY, HAYNE AND CALLINAN JJ

PETERS (WA) LTD APPELLANT

AND

PETERSVILLE LTD & ANOR RESPONDENTS

Peters (WA) Ltd v Petersville Ltd [2001] HCA 45
9 August 2001
P64/2000

ORDER

1. *Amend the style of the appellant to read "PB Foods Ltd".*

2. *Appeal dismissed with costs.*

On appeal from the Federal Court of Australia

Representation:

W S Martin QC with S M Standing for the appellant (instructed by Freehills)

T F Bathurst QC with A I Tonking for the respondents (instructed by Minter Ellison)

CATCHWORDS

Peters (WA) Ltd v Petersville Ltd

Trade practices – Restraint of trade – Sale of business – Appellant manufactured and sold ice cream products in Western Australia under the "Peters" marks – Respondents manufactured and sold ice cream products under the "Pauls" marks nationally and under the "Peters" marks in every State except Western Australia – Sale of respondents' Western Australian ice cream business to appellant – Sale agreement provided that the appellant be granted the exclusive right and licence to use the "Pauls" marks in Western Australia in return for percentage royalty – Sale agreement contained covenant restraining respondents from selling ice cream products in Western Australia – Restraint coextensive with duration of licensing arrangements but extended to ice cream products to which licensing arrangements not applicable – Whether restraint is one to which the common law restraint of trade doctrine applies.

Trade practices – Restraint of trade – Circumstances in which the restraint of trade doctrine does not apply – Whether "sterilisation of capacity test" should be adopted in Australia.

Trade practices – Restraint of trade – Development of common law respecting restraint of trade – Considerations of public interest – Relationship between doctrine of "restraint of trade" and *Trade Practices Act* 1974 (Cth).

Words and phrases – "restraint of trade" – "sterilisation of capacity" – "fettering of existing freedom" – "public interest".

Trade Practices Act 1974 (Cth), ss 4M, 45-51AAA.

GLEESON CJ, GUMMOW, KIRBY AND HAYNE JJ.

The litigation

1 The respondents, Petersville Ltd ("Petersville") and Peters Foods Australia Pty Ltd ("Peters Foods"), in litigation instituted by them in the Federal Court in 1996, sought a declaration that a contractual restraint imposed upon them in favour of the appellant, Peters (WA) Ltd ("Peters WA")[1], is unenforceable at common law because it is in restraint of trade. The respondents also contended that in threatening to enforce that restraint Peters WA had contravened or attempted to contravene s 45(2)(b) of the *Trade Practices Act* 1974 (Cth) ("the Trade Practices Act")[2] and that Peters WA had engaged in the practice of exclusive dealing contrary to s 47 of that statute.

2 Peters WA denied these claims and, in particular, defended the common law claim on two grounds. The first was that the restraint was not one to which

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1 In 1997, after the institution of the present litigation, Peters WA changed its name to PB Foods Ltd, but this change was not reflected in the record in the Federal Court. It will be necessary for an appropriate order to be made in this Court correcting the identity of the appellant.

2 Section 45(2)(b) of the Trade Practices Act forbids a corporation to:

> "give effect to a provision of a contract, arrangement or understanding, whether the contract or arrangement was made, or the understanding was arrived at, before or after the commencement of this section, if that provision:
>
> (i) is an exclusionary provision; or
>
> (ii) has the purpose, or has or is likely to have the effect, of substantially lessening competition."

The term "exclusionary provision" is defined in s 4D so as to require, in particular, a contract, arrangement or understanding between competitors with the purpose of either restricting the supply of goods or services by all or any of those competitors to particular persons or classes of persons, or restricting the acquisition of goods or services by all or any of those competitors from particular persons or classes of persons. There are definitions respectively in s 45(3) and s 45(4) of "competition" and of what is meant by the substantial lessening of competition. The term "competition" refers to activity in any "market", a term which in turn is defined in s 4E so as to include notions of substitutability of goods and services.

the common law doctrine applied. The second was that, in any event, the restraint was reasonable in the interests of the parties and the public. These two defences and other issues respecting the Trade Practices Act claims were ordered by Carr J to be tried and determined separately from and in advance of any further trial in the proceedings. It will be necessary later in these reasons to say something respecting the other issues. The parties furnished a statement of agreed facts and an agreed bundle of documents. Carr J made a declaration that the provision in question was void as being in restraint of trade[3]. An appeal to the Full Court of the Federal Court (French, Kiefel and R D Nicholson JJ) was dismissed[4].

3 In this Court, Peters WA renewed its submission that the covenant in question does not impose any restraint within the meaning of the common law doctrine. In addition to rejecting that submission, Carr J had held that the restraint was not reasonable as between the parties and the Full Court upheld that holding. In this Court, there is no issue respecting the reasonableness of the restraint. Peters WA did use in its submission the phrase "inherent reasonableness" to describe the class or kind of the agreement containing the restraint, but this was not used to develop fully an argument and appears not to have added anything to and distinct from its other submissions to this Court. The appeal stands or falls upon the submission by Peters WA that the provision does not impose any restraint to which the common law doctrine applies.

4 Before turning to consider the submissions by which Peters WA seeks to show that the common law doctrine does not apply in this case, it is convenient further to consider the relevant circumstances.

The facts

5 The various businesses of the parties in ice cream and related products had lengthy histories. The Peters WA business began trading in Western Australia in 1929. It obtained a trade mark registration for "Peters" for ice cream and frozen confectionery, but the registration was limited to Western Australia. Petersville had its origins in Victoria in the same period and its operations expanded to New South Wales, South Australia and the Northern Territory. In Queensland, the brand name "Pauls" was chosen in the 1930s by Pauls Ltd which was in competition in that State with Peters Arctic Delicacy Co Ltd. In 1960, these two

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3 *Petersville Ltd v Peters (WA) Ltd* (1999) 160 ALR 359 at 381.

4 *Peters (WA) Ltd v Petersville Ltd* [1999] ATPR ¶41-714.

companies and another Queensland company amalgamated to form a company which, in the 1970s, became QUF Industries Ltd ("QUF"). By 1980, QUF manufactured ice cream products in Queensland, Victoria and Western Australia. In Queensland, it used the "Peters" and "Pauls" brands and elsewhere marketed its products under the "Pauls" brand.

6 In 1980, Petersville formed a partnership with QUF under the name "Australian United Foods" ("AUF"). The partnership manufactured and sold ice cream products under the "Pauls" brand nationally and under the "Peters" brand in every State except Western Australia. There is an agreed fact that:

> "Peters was positioned as a dependable, trustworthy but contemporary brand. Pauls was positioned as an exuberant and different brand, expert in providing novel treats."

At the time of the AUF merger, it was Peters WA which manufactured and sold ice cream products in Western Australia under the "Peters" brand and it still does so.

7 On 15 February 1983, QUF and Petersville entered into a written agreement with Peters WA ("the Agreement"). The Agreement provided for the sale by the partners in AUF of their Western Australian ice cream business to Peters WA. The text of the Agreement gives rise to a number of questions of construction which, for present purposes, it is unnecessary to answer.

8 Carr J summarised the effect of the Agreement as follows[5]:

> "(a) QUF sold several parcels of land in Western Australia, on which the ice-cream business of AUF was conducted, to [Peters WA] for $1,164,500 [Art 1];
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> (b) AUF sold the plant, equipment, motor vehicles and chattels used in its Western Australian ice-cream business to [Peters WA] for $519,000 [Art 2];
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> (c) AUF sold the stock in trade of its Western Australian ice-cream business to [Peters WA] for $752,000 [Art 2];
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> (d) AUF sold the right to use various Pauls and other associated trade marks in Western Australia, and the goodwill of AUF's Western

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5 (1999) 160 ALR 359 at 361-362.

Australian ice-cream business, to [Peters WA] for $1,054,500 [Art 2];

(e) AUF agreed to grant, or procure the grant, to [Peters WA] of the exclusive right and licence to use the Pauls marks in Western Australia [Art 5];

(f) as payment for the exclusive right and licence to use those marks, [Peters WA] was required to pay a royalty of 2.5% on sales of all products bearing the Pauls marks (the licensed products) in Western Australia and on ice-cream products sold by [Peters WA] to Coles for resale as house brands as if they were licensed products [Art 5.4]. There was a minimum royalties provision [Art 5.6];

(g) [Peters WA] was entitled to market products and use advertising or promotions acquired or developed by AUF under the 'Peters' mark on the basis that such products were to be considered as licensed products [Art 7.3];

(h) AUF agreed to provide [Peters WA] with access to AUF's manufacturing know-how, product development and technical marketing information in relation to ice-cream products marketed by AUF, in return for reimbursement of expenses [Art 7.2];

(i) QUF and Petersville covenanted not to sell, supply or distribute to any person in Western Australia ice-cream or frozen confections manufactured or distributed by either of them [Art 7.1]; and

(j) the total purchase price was $3,490,000."

9 The covenant identified in (i) contained the restraint with which this litigation is concerned. It appears in the Agreement as Art 7.1 and reads:

"Each of QUF and [Petersville] covenants and agrees with and for the benefit of [Peters WA] solely for the protection of [Peters WA] in respect of the goodwill of the ice cream business but subject to the due performance by [Peters WA] of its obligations hereunder and except as herein permitted that they and each of them will not:

(a) sell, supply or distribute to any person in Western Australia ice cream or frozen confections manufactured or distributed by them or either of them;

(b) sell, supply or distribute to any person anywhere ice cream or frozen confections manufactured or distributed by them or either of them where such ice cream or frozen confections are to the knowledge of QUF and [Petersville] or either of them ultimately intended for sale supply or distribution in Western Australia whether by the first-mentioned person or another person;

(c) carry on in Western Australia directly or indirectly and whether as principal or agent the business of manufacturer, distributor (or either of them) of ice cream or frozen confections; or

(d) permit any subsidiary or related company (within the meaning of those expressions under the Companies (Western Australia) Code) of them or either of them directly or indirectly and whether as principal or agent to carry on the business of manufacturer, distributor (or either of them) of ice cream or frozen confections in Western Australia;

during the period of the licensing arrangements referred to in Article V hereof."

10 It will be apparent from the concluding words of Art 7.1 that the restraint it imposes is limited in time to a period coextensive with that of the licensing arrangements made in Art 5. The first term of those licensing arrangements ended in December 1997. At the time of the hearing before Carr J, Peters WA had exercised the first of three options given by Art 5.11, each for a five year extension. If Peters WA exercised the remaining options for extension of the licensing arrangements under Art 5, the restraint under Art 7.1 would operate until 31 December 2012.

11 Settlement of the transaction evidenced by the Agreement occurred on 18 March 1983. Thereafter, Peters WA absorbed the Western Australian ice cream business of AUF into its own business and operated the two businesses as one. In or about 1988, the second respondent, Peters Foods, acquired all of the share and interest of QUF in the assets of the AUF partnership business. It was common ground before Carr J that Peters Foods is bound by the terms of the Agreement[6].

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6 (1999) 160 ALR 359 at 363.

12 The purchase price payable by Peters WA under the Agreement had been satisfied in part by the issue of 1.3 million shares at an issue price of $1.40. This represented 9.99 per cent of the issued share capital of Peters WA. These shares were sold in June 1983 to a Singaporean purchaser. Further, by the time of the institution of this litigation, Nestlé Australia Limited had become the holding company of both Petersville and Peters Foods.

The common law doctrine – threshold issues

13 We now turn to the submission by Peters WA that the restraint imposed by Art 7.1 of the Agreement does not attract the operation of the common law doctrine.

14 A great number of the reported decisions respecting that doctrine turn upon the reasonableness of the restraint, particularly in relation to the legitimate interests of the parties. However, in particular cases, before the question of reasonableness is reached, there may be one or more threshold or preliminary questions requiring resolution. Three may be mentioned. First, it may be asked whether there is a "restraint" within the meaning of the doctrine. That is to be answered by having regard to the practical working of the alleged restraint rather than merely to its legal form[7]. Secondly, it may be suggested that the restraint is not upon or in respect of "trade". *Buckley v Tutty*[8] established that, for the purposes of the common law doctrine, the notion of "trade" is not to be read narrowly, so that, for example, it is not limited to any category of skilled occupation and applies to employment generally. The third question is that with which this case is concerned, namely whether the restraint in question is one to which the doctrine applies so that, if the answer is in the negative, there is no occasion to go on to consider the question of reasonableness[9].

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7 *Howard F Hudson Pty Ltd v Ronayne* (1972) 126 CLR 449 at 453, 462-463, 467-468; *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1973) 133 CLR 288 at 292-293, 313-314, 326. When the latter litigation was before the South Australian Full Court, Bray CJ had said that it was difficult to see how a public policy against restraint of trade could be ousted by the form of a transaction: *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty Ltd* (1972) 7 SASR 268 at 333.

8 (1971) 125 CLR 353 at 371-372.

9 See Heydon, *The Restraint of Trade Doctrine*, 2nd ed (1999) at 49.

15 That there are some species of restraint of trade which do not attract the operation of the common law doctrine is well established. The question is whether the present case falls within any of them or, at least, is the first of a newly discerned immune species and, if so, what criteria are applicable to isolate that species.

16 In *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd*, Lord Wilberforce said[10]:

> "It is not to be supposed, or encouraged, that a bare allegation that a contract limits a trader's freedom of action exposes a party suing on it to the burden of justification. There will always be certain general categories of contracts as to which it can be said, with some degree of certainty, that the 'doctrine' does or does not apply to them."

His Lordship added[11]:

> "[T]here will be types of contract as to which the law should be prepared to say with some confidence that they do not enter into the field of restraint of trade at all."

17 Earlier, in speaking for the Judicial Committee in *Vancouver Malt and Sake Brewing Co v Vancouver Breweries Ltd*, Lord Macmillan had observed[12]:

> "It is no doubt true that the scope of a doctrine which is founded on public policy necessarily alters as economic conditions alter. Public policy is not a constant. More especially is this so where the doctrine represents a compromise between two principles of public policy; in this instance, between, on the one hand, the principle that persons of full age who enter into a contract should be held to their bond and, on the other hand, the principle that every person should have unfettered liberty to exercise his powers and capacities for his own and the community's benefit."

18 In *Esso*, Lord Wilberforce concluded[13]:

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10 [1968] AC 269 at 332.

11 [1968] AC 269 at 332.

12 [1934] AC 181 at 189.

13 [1968] AC 269 at 336-337.

> "[T]he courts are not lacking in tools which enable them to select from the whole range of those contracts, which in one way or another limit freedom in trading, segments of current and recognisably normal contracts which are not currently liable to be subjected to the necessity of justification by reasonableness. Such contracts may even be listed, provisionally, in categories … but the classification must remain fluid and the categories can never be closed."

19 We were referred to the decision of Parker J in the Chancery Division of the English High Court in *Panayiotou v Sony Music Entertainment (UK) Ltd*[14]. That decision may suggest that what Parker J called the "clear public interest in upholding genuine and proper compromises" applies to a "genuine and proper" compromise of a dispute respecting an alleged restraint of trade with the result that a later claim that the compromise itself is in restraint of trade falls outside the scope of the restraint of trade doctrine. The result would be that the subsequent restraint did not require justification under the common law doctrine[15]. It is unnecessary on this appeal to express any conclusion upon that matter.

The decision in *Esso*

20 In *Esso*, all members of the House of Lords who took part in the decision agreed that the common law doctrine does not apply to a covenant given by a purchaser or lessee restricting the use to which the land purchased or leased may be put[16]. However, for the reasons given by each of them, all of their Lordships concluded that the two "solus" supply agreements came within the doctrine because both of them were naked covenants not arising out of the sale or lease of land[17]. In *Amoco Australia Pty Ltd v Rocca Bros Motor Engineering Co Pty*

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14 [1994] Trading Law Reports 532.

15 [1994] Trading Law Reports 532 at 570-572.

16 [1968] AC 269 at 298 per Lord Reid, 308-309 per Lord Morris of Borth-y-Gest, 316-317 per Lord Hodson, 325 per Lord Pearce, 332-335 per Lord Wilberforce.

17 See *Robinson v Golden Chips (Wholesale) Ltd* [1971] NZLR 257 at 264.

Ltd[18], Bray CJ pointed out that what had been said in *Esso* respecting sales and leases was obiter. His Honour said[19]:

> "In the *Esso Case*[20] itself there was no question of the sale or lease of any land. There were two separate restraints under consideration in contracts relating to two separate garages, one for four and a half years and one for twenty-one years, but the one for twenty-one years was supported by a mortgage. Their Lordships held the first restraint valid and the second unenforceable. The fact that some of the objectionable covenants were contained in a mortgage did not save them."

Nevertheless, in Australia, *Quadramain Pty Ltd v Sevastapol Investments Pty Ltd*[21] appears to have established the same position with respect to the non-applicability of the doctrine to purchases and leases of land.

21 The speeches in *Esso* are important for the present case because they have been seen as offering various rationales by which it may be determined whether particular categories of restraint fall outside the doctrine and do not require justification by considerations of reasonableness. Peters WA does not submit that the restraint imposed by Art 7.1 falls within any one of the categories, such as those respecting purchases and leases of land, which have been taken in past authorities to fall outside the scope of the doctrine. However, Peters WA does rely upon some of the more generally expressed reasoning in *Esso*, in particular that in the speech of Lord Pearce, as supplying a doctrinal basis marking the limits of the common law doctrine.

22 Peters WA eschews what has come to be identified as the "fettering of existing freedom" criterion which is associated with statements in the speeches of Lord Reid, Lord Morris of Borth-y-Gest and Lord Hodson[22]. This criterion is encapsulated in a statement by Lord Reid that restraint of trade implies "that a

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18 (1972) 7 SASR 268; affd (1973) 133 CLR 288 and, on other issues, by the Privy Council (1975) 133 CLR 331; [1975] AC 561.

19 (1972) 7 SASR 268 at 333.

20 [1968] AC 269.

21 (1976) 133 CLR 390 at 394, 396-399, 401, 405, 406.

22 [1968] AC 269 at 298, 306-309, 316-317 respectively; cf the speech of Lord Pearce at 325.

man contracts to give up some freedom which otherwise he would have had"[23]. Consideration of the doctrine from this perspective has been criticised[24]. Professor Sir Guenter Treitel writes[25]:

> "[I]t is submitted that the reasoning is hard to reconcile with the emphasis placed in the *Esso* case itself on the element of public interest; for restrictions on the use of land may cause just as much harm to the public where they are imposed at the time when the land is acquired as where they are imposed later." (footnote omitted)

In *Amoco*[26], two Justices adverted to the matter. Menzies J[27] pointed out that in *Queensland Co-operative Milling Association v Pamag Pty Ltd*[28] a covenant given by a party starting a new business and in relation to future trading had been subjected to the test of reasonableness. Walsh J[29] expressed reluctance to accept the correctness of what had been said on this account in *Esso*. Given the way Peters WA presented its case here, there is no occasion further to consider that aspect of *Esso*.

23 In *Esso*, Lord Wilberforce, after his consideration of the established instances where the doctrine was understood to have no application, said that the treatment of the transactions involved in this way could only truly be explained[30]:

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23 [1968] AC 269 at 298.

24 Heydon, *The Restraint of Trade Doctrine*, 2nd ed (1999) at 51-53; Beatson, *Anson's Law of Contract*, 27th ed (1998) at 375.

25 *The Law of Contract*, 10th ed (1999) at 434.

26 (1973) 133 CLR 288.

27 (1973) 133 CLR 288 at 293.

28 (1973) 133 CLR 260.

29 (1973) 133 CLR 288 at 304. Gibbs J, at 313, found it unnecessary to decide whether the scope of the common law doctrine is limited in the manner suggested by Lord Reid, Lord Morris of Borth-y-Gest and Lord Hodson.

30 [1968] AC 269 at 335.

> "by saying that they have become part of the accepted machinery of a type of transaction which is generally found acceptable and necessary, so that instead of being regarded as restrictive they are accepted as part of the structure of a trading society".

That rationale has been adopted by the Full Federal Court in *Australian Capital Territory v Munday*[31] after a full review of the authorities since *Esso* in a number of jurisdictions. However, it is inappropriate to express here any concluded view on the matter. This is because Peters WA cannot bring the restriction imposed by Art 7.1 within that explanation of the cases.

24 Rather, Peters WA relied upon statements made by Lord Pearce in *Esso*[32]:

> "The doctrine does not apply to ordinary commercial contracts for the regulation and promotion of trade during the existence of the contract, provided that any prevention of work outside the contract, viewed as a whole, is directed towards the absorption of the parties' services and not their sterilisation."

His Lordship continued[33]:

> "When a contract only ties the parties during the continuance of the contract, and the negative ties are only those which are incidental and normal to the positive commercial arrangements at which the contract aims, even though those ties exclude all dealings with others, there is no restraint of trade within the meaning of the doctrine and no question of reasonableness arises. If, however, the contract ties the trading activities of either party after its determination, it is a restraint of trade, and the question of reasonableness arises. So, too, if *during* the contract one of the parties is too unilaterally fettered so that the contract loses its character of a contract for the regulation and promotion of trade and acquires the predominant character of a contract in restraint of trade." (original emphasis)

25 Peters WA further contended that support for what had been said by Lord Pearce in *Esso* was to be found in a statement by Stephen J in his dissenting

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31 (2000) 99 FCR 72 at 89-93.

32 [1968] AC 269 at 328.

33 [1968] AC 269 at 328-329.

judgment in *Amoco*. His Honour indicated[34] that a restriction imposed only during the period while contractual obligations remained to be performed on both sides might be viewed for purposes of the common law doctrine "in a different light" from a restriction operating "after the other party's obligations have come to an end".

26 The issues for this appeal then become whether for the common law of Australia there is such a principle of exclusion as indicated by Lord Pearce and, if so, whether the present case falls within it.

27 In *Amoco*, Walsh J remarked[35] that at the root of the rule that agreements in restraint of trade are, prima facie, unenforceable lies public policy. His Honour referred to the well-known formulation by Lord Macnaghten in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Company*[36] respecting, first, reasonableness in the interests of the parties and, secondly, the absence of injury to the public. Walsh J saw considerations of public policy present in both branches of the *Nordenfelt* formulation. His Honour said[37]:

> "[I]f a restraint is imposed which is more than that which is required (in the judgment of the court) to protect the interests of the parties, that is a matter which is relevant to the considerations of public policy which underlie the whole doctrine, since to that extent the deprivation of a person of his liberty of action is regarded as detrimental to the public interest".

In *Esso*, Lord Hodson held the 21 year tie to be invalid "on the public interest rather than on that of the parties"[38]; Lord Pearce observed that there was no real separation between "what is reasonable on grounds of public policy and what is reasonable as between the parties"[39]. In the same way, considerations of public policy must attend the formulation of any criteria by which further categories of case are isolated at the threshold from the operation of the doctrine.

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34 (1973) 133 CLR 288 at 328.

35 (1973) 133 CLR 288 at 307.

36 [1894] AC 535 at 565.

37 (1973) 133 CLR 288 at 307.

38 [1968] AC 269 at 321.

39 [1968] AC 269 at 324.

28 In consideration of what is involved in public policy respecting such a matter, it may be appropriate to have regard to relevant federal statute law[40], in particular the Trade Practices Act.

The Trade Practices Act

29 In *Quadramain*[41], this Court considered s 45 of the Trade Practices Act as originally enacted. This provision used the phrase "in restraint of trade or commerce". Section 45 did not go on to limit the phrase to those restraints to which the common law doctrine applied. That omission may suggest, as was pointed out at the time[42], that *Esso* had no application and that s 45 was broader than the common law. Nevertheless, one of the bases upon which Gibbs J rested his judgment was that, because the covenant in question could not properly be described as one in restraint of trade or commerce for the purposes of the common law doctrine, s 45 did not apply to it[43].

30 The present relationship between the common law doctrine of restraint of trade and Pt IV of the Trade Practices Act has several aspects. The outcome in *Quadramain* suggested that the detailed provisions made in Pt IV (now ss 45-51AAA) were to be read with, and perhaps constrained by, the provisions of the common law rather than as providing federally enacted norms of conduct which might supersede the common law[44]. Like s 45 in its original form, s 1 of the Sherman Act[45] uses the term "restraint of trade". It is well established by decisions of the United States Supreme Court that s 1 thereby invokes the common law understanding of the term "restraint of trade" but does so not merely by looking to the "static content" of the common law doctrine at the time

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40 *Esso Australia Resources Ltd v Federal Commissioner of Taxation* (1999) 201 CLR 49 at 60-63 [19]-[28], 83 [91].

41 (1976) 133 CLR 390.

42 Heydon, "Restraint of Trade in the High Court", (1976) 50 *Australian Law Journal* 290 at 294.

43 (1976) 133 CLR 390 at 403.

44 See *Perre v Apand Pty Ltd* (1999) 198 CLR 180 at 247 [183].

45 15 USCA.

of the enactment of the legislation in 1890[46]. Rather, as Judge Learned Hand put it, the statute incorporates "the changing standards of the common law"[47].

31 The construction given to s 45 in *Quadramain* was followed by significant amendments to the Trade Practices Act by the *Trade Practices Amendment Act* 1977 (Cth). This significantly amended Pt IV and introduced, largely in their present form, ss 45 and 47, the provisions relied upon by the respondents in their statement of claim. The 1977 amendments also introduced s 4M. This states that the Trade Practices Act "does not affect the operation of … the law relating to restraint of trade in so far as that law is capable of operating concurrently with this Act … but nothing in [that] law … affects the interpretation of this Act".

32 The result is threefold. First, unlike the position in the United States respecting s 1 of the Sherman Act, developments in the common law will not affect the interpretation of the Trade Practices Act. Secondly, the common law is free to develop independently of the statute, provided always that the common law is capable of operating concurrently with the statute. Thus, the common law may strike down a restraint which falls outside the operation of Pt IV. The outcome in *Adamson v New South Wales Rugby League Ltd*[48] is an example. The respondents do not suggest against Peters WA that, if the common law did place the restraint in question outside the doctrine, as Peters WA contends, that would produce a situation whereby the common law was incapable of operating concurrently with the Trade Practices Act.

33 But there is a third result. While s 4M leaves the common law free to develop in the fashion identified in the section, it does not deny that in such development the courts may have regard to the statute. Observations made by Deane J when dealing with the interrelation between the common law and the provisions of Pt V of the Trade Practices Act (especially s 52) are in point. His Honour's remarks in *Moorgate Tobacco Co Ltd v Philip Morris Ltd [No 2]*[49] suggest that, in deciding what development, if any, there should be of the common law respecting a particular subject, the court should have regard to what the Parliament had determined to be "the appropriate balance between competing

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46 *Business Electronics Corp v Sharp Electronics Corp* 485 US 717 at 732 (1988); *State Oil Co v Khan* 522 US 3 at 20-21 (1997).

47 *United States v Associated Press* 52 F Supp 362 at 370 (1943).

48 (1991) 31 FCR 242.

49 (1984) 156 CLR 414 at 445.

claims and policies". That is a point of significance here, where the question is whether the restraint in Art 7.1 is to be reconciled with the public interest, and Pt IV of the Trade Practices Act establishes a detailed regime to which particular exceptions are stated.

Sterilisation of capacity

34 The expression "sterilisation of capacity" has been used to describe the purport of the remarks by Lord Pearce in *Esso* upon which Peters WA relies. In general terms, the effect of those remarks is that the restraint of trade doctrine does not apply to contracts which absorb the capacity of a covenantor rather than sterilise it. The relevant passages in his Lordship's speech have been criticised in the following terms[50]:

> "[F]irst, [Lord Pearce's] application of the test is inconsistent, for he says covenants taken on the conveyance or lease of land are outside the doctrine, though they may sterilise a covenantor. Secondly, the test depends on exploded doctrines – that restraint of trade does not apply during the continuance of contracts, and that it does not apply where trade is promoted rather than restrained. Thirdly, the test relies on cases in which the restraint of trade doctrine was not applied but which on analysis appear to sterilise the capacities of the covenantors."

35 There are other objections of a more fundamental kind. First, as the facts of, and the submissions in, this case illustrate, the "test" involves the application of criteria of particular indeterminacy, at least some of which are likely to recur in any consideration of reasonableness. There is little to be said for a "test" which will involve the expenditure of the energies of disputants in fighting at the threshold matters which go to the substantive merits engaged by consideration of the reasonableness of the restraint in question. Secondly, consistently with the reasoning of Walsh J in *Amoco*, to which reference has been made, the determination that there exists a category of restraint which does not require justification requires a consideration of public policy. The deprivation by restraint, even if originally imposed consensually, upon the liberty of action of a trader has been regarded as detrimental to the public interest. What matter of public interest requires the removal of what otherwise is the requirement of justification for the upholding of a restraint such as that in Art 7.1?

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50 Heydon, *The Restraint of Trade Doctrine*, 2nd ed (1999) at 60.

36 It was submitted that the restraint in Art 7.1 was ancillary to and bolstered the licence provisions in Art 5[51]. The law already implies an obligation by the respondents to do all such things as are necessary on their part to enable Peters WA to have the benefit of those licence arrangements[52]. It is not now necessary to consider the basis of the implication. The law also implies a negative covenant not to hinder or prevent the fulfilment of the purpose of the express promises made in Art 5[53]. But, as will later appear, the restraint cannot be said to be referable only to the continuing licensing arrangements, notwithstanding their common duration. In any event, such matters are better considered in an analysis of the reasonableness of the restraint rather than as an element in the process of reasoning by which the occasion for any analysis of such reasonableness is avoided.

37 Peters WA also referred to the significance of the consensual nature of the restraint and its place in an overall commercial bargain. That may be accepted. However, at least since *Nordenfelt*, the common law in this field has fixed the appropriate balance between the competing claims and policies generally in favour of striking down restraints unless they can be justified. In this way, and by "a clear rule", there was removed the tendency, as Dixon J put it in *Peters American Delicacy Co Ltd v Patricia's Chocolates and Candies Pty Ltd*[54]:

> "of placing the public policy of securing an ample freedom of contract and enforcing obligations assumed in its exercise in opposition to the public policy of preserving freedom of trade from unreasonable contractual restriction".

In the same case, Dixon J adopted[55] the statement by Isaacs J in *Bacchus Marsh Concentrated Milk Co Ltd (in Liquidation) v Joseph Nathan & Co Ltd*[56]:

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51 cf *Murray (Inspector of Taxes) v Imperial Chemical Industries Ltd* [1967] Ch 1038 at 1051.

52 *Butt v McDonald* (1896) 7 QLJ 68 at 70-71; *Secured Income Real Estate (Australia) Ltd v St Martins Investments Pty Ltd* (1979) 144 CLR 596 at 607-608.

53 *Shepherd v Felt and Textiles of Australia Ltd* (1931) 45 CLR 359 at 378.

54 (1947) 77 CLR 574 at 590.

55 (1947) 77 CLR 574 at 591. See also the discussion of Dixon J's judgment in *Peters American Delicacy* by Gibbs J in *Amoco* (1973) 133 CLR 288 at 317.

56 (1919) 26 CLR 410 at 440.

> "Freedom of trade cannot, without sufficient legal justification, be restricted by agreement simply on the principle of freedom of contract".

In the present case, one therefore is returned to the anterior question whether there is any countervailing public policy which, in a case such as the present, overreaches that settlement of principle in *Nordenfelt*. In the end, none can be identified.

38 Finally, there is the consideration referred to by Heerey J in *Australian Capital Territory v Munday*[57]. This is that the Trade Practices Act provides a substantial statutory competition law regime to which, for example in s 51, particular exceptions are made. The Parliament regularly adjusts this legislation in the light of what are perceived to be the changing needs of commerce and the public and the fundamental importance of competition for the economy; moreover, the legislative scheme is enforced by the Australian Competition and Consumer Commission, a statutory body to which the legislature has given extensive powers. The formulation by Lord Pearce in *Esso* involves qualifications and indeterminacies best left to legislative provision by way of exception to the provisions of Pt IV of the Trade Practices Act, rather than judicial intervention of dubious justification and persuasiveness.

39 The "test" upon which Peters WA relies should not be accepted in Australian common law.

The present case

40 The foregoing conclusion is sufficient to lead to the dismissal of the appeal but, as there was full argument upon a further question, we turn to consider it. The question may be stated as follows. On the assumption that the statements by Lord Pearce in *Esso* do justify the adoption in Australia of a particular category of restraint which does not require justification for reasonableness, was the Full Court in error in its conclusion that Lord Pearce's principle did not apply on the facts of this litigation? That is to say, was the Full Court wrong in deciding that on the facts Art 7.1 was still within the operation of the common law doctrine, thus requiring it to be justified if it were to be upheld? The determination of this final issue requires further attention to the effect of the Agreement.

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57 (2000) 99 FCR 72 at 92.

41 In the Full Court, as in this Court, there was consideration in argument of the history of the negotiations leading to the execution of the Agreement. However, as the Full Court indicated[58], the relevance of that material related to the question of the reasonableness of the restraint, given the benefit AUF saw in the proposed arrangement.

42 Peters WA purchased (Art 2.1(c)) the right to use in Western Australia the "Pauls" brand name and associated trade marks. Effect to this was then given by Art 5. Article 5.2 provided for the grant by AUF to Peters WA of "the sole and exclusive right and licence" to use the "Pauls" marks in Western Australia. Reference to "sole and exclusive right and licence" is important because it is accepted that Art 5.2 prevents the respondents from using the "Pauls" marks in Western Australia[59]. Article 5.4 provides that Peters WA is to pay a percentage royalty on sales within Western Australia of all products bearing the "Pauls" marks. This provision further states that, for the purposes of Arts 5.4 and 5.6, royalties also are payable on ice cream products sold by Peters WA to Coles for resale by that organisation under any house brand. Article 5.6 contains a minimum royalties provision. Article 5.11 confers upon Peters WA the three options to which reference already has been made for the extension of the licence for consecutive terms of five years. It should be noted that Art 5.2, the licensing provision, applies to "Pauls" marks not held by either respondent; it obliges them to procure the owner of any such marks to provide the licence. As the Full Court pointed out, Art 7.1 prevents the respondents from selling, supplying or distributing to any person in Western Australia ice cream or frozen confections and extends to activities outside Western Australia if the ultimate destination of the products is Western Australia. The provision also purports to prevent any subsidiary or related company, including, it would seem, a parent company, from engaging in such activities.

43 The arguments on this issue put to this Court by Peters WA repeated those which the Full Court had rejected. The Full Court did so in terms which we would adopt. The passage in the Full Court judgment is as follows[60]:

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58 [1999] ATPR ¶41-714 at 43,202.

59 cf *Murray (Inspector of Taxes) v Imperial Chemical Industries Ltd* [1967] Ch 1038 at 1051.

60 [1999] ATPR ¶41-714 at 43,203-43,204.

"The circumstances of which Lord Pearce spoke in *Esso* require consideration of the 'positive commercial arrangements at which the contract aims' and then the 'negative ties' which are normal and incidental to those arrangements. Here [Peters WA's] argument necessarily relies upon the licensing arrangements, since that was the only aspect of what otherwise amounted to a sale of a business, which had the parties in continuing commercial relations. It was argued before [Carr J] that the fact that the restraint applied during the continuance of the [A]greement and that the [A]greement required the parties' ongoing co-operation in a number of areas, were important factors. The firstmentioned factor provides a connexion between the restraint and the term of the licence, as [Carr J] noted. It did not however answer the question whether the restraint was necessary and incidental to the licence. As to the question of future co-operation, what was required appeared to be fairly limited in [Carr J's] view. It has not been shown that such a finding was incorrect.

One may accept that the restraint could be connected to the licensing arrangements. Whilst it was said to be referrable to the 'goodwill of the ice-cream business,' that clearly included the use of the brand names, as the identification of the components for the price of $1,054,500 confirms. Importantly, however, the restraint could not be said to be only referrable to the ongoing licensing arrangements. As [Carr J] held, correctly in [our] respectful view, it could not then be considered incidental to them. The arrangements envisaged restrictions not just upon the use of the brand name, but extended to the manufacture, distribution, sale or supply of ice-cream products not only to AUF's former customers in Western Australia but to anyone and contained a prohibition on sale, supply and distribution to 'any person anywhere' if it was known that the product was ultimately intended for the Western Australian market. The restrictions amounted to a restraint."

44 Remarks by Isaacs J in *Bacchus Marsh Concentrated Milk Co Ltd (in Liquidation) v Joseph Nathan & Co Ltd*[61], adapted to the licensing arrangements in Art 5 and the restraint in Art 7.1, are also in point. His Honour said[62]:

"If, then, all that was substantially contracted for, independently of the patents and the exclusive rights they afforded, was the exclusive right to trade, what is the legal nature of that subject? It seems to me that it is just

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61 (1919) 26 CLR 410.

62 (1919) 26 CLR 410 at 440.

an instance of what Lord *Macnaghten* in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co*[63], and Lord *Parker* in *Saxelby's Case*[64], call 'restraints of trade' (where) 'there is nothing more.'"

45 Accordingly, even if, contrary to our conclusion, Lord Pearce's exception or some variation of it were to be adopted in Australia, this would not avail Peters WA on the facts of this case.

Conclusions

46 The Full Court correctly held that there had been no error by Carr J in his decision that the restraint imposed by Art 7.1 was one to which the common law doctrine applied. That being so, the decision that the restraint is void stands.

47 That outcome makes it unnecessary to determine in this Court a further point raised by Peters WA. If the restraint survived the application of the common law doctrine, then it would be necessary for Peters WA to withstand the attack sought to be made upon it under ss 45 and 47 of the Trade Practices Act. To that attack, Peters WA had pleaded an answer under par (e) of s 51(2) of the Trade Practices Act.

48 The effect of this paragraph is that in determining whether a contravention of a provision of Pt IV, including ss 45 and 47, has been committed, regard shall not be had:

> "(e) in the case of a contract for the sale of a business or of shares in the capital of a body corporate carrying on a business – to any provision of the contract that is solely for the protection of the purchaser in respect of the goodwill of the business".

49 Given the outcome of the litigation with respect to the common law doctrine, the occasion in this Court for any determination respecting the construction of this provision falls away.

50 The style of the appellant should be amended to read "PB Foods Ltd". Otherwise, the appeal should be dismissed with costs.

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63 [1894] AC 535 at 565.

64 *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688 at 706.

51 CALLINAN J. The argument in this case focussed upon the question whether the restraint of trade doctrine could apply to the parties' contractual arrangements and not upon the reasonableness or otherwise of the restraint inter partes and in the public interest. It is therefore unnecessary to explore the latter matters upon which, I think, I might well have entertained some doubt. After all, the arrangements were made between substantial corporations dealing at arms length in respect of the sale of frozen foods to population centres so remote from other parts of Australia and elsewhere that it was very unlikely that the foods would have originated anywhere except in Western Australia. It may also have been significant to any question of reasonableness that the parties were content to abide by their arrangements for about 14 years before one party (or its assignee) saw fit to seek to break part of its contract in reliance upon the restraint of trade doctrine. Further, s 4M of the *Trade Practices Act* 1974 (Cth)[65] does not mean that the common law of restraint of trade is not susceptible to incremental change in the way in which the common law customarily changes. Such a change may one day extend to reversing the presumption, derived from an ancient but perhaps anachronistic antipathy towards now obsolescent, highly restrictive guilds and royal monopolies[66], that all restraints of trade are obnoxious to private and public interests, and unenforceable, unless the beneficiary of the restraint demonstrates otherwise.

52 All of that having been said, however, I do not think that the appellant has made out a case for the location of this restraint outside any categories of restraint which the common law has hitherto accepted as being subject to the doctrine. There are, I think, uncertainties involved in the application of any of the tests propounded from time to time by the courts, and, in particular, the three tests formulated in *Esso Petroleum Co Ltd v Harper's Garage (Stourport) Ltd*[67].

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65 Section 4M provides that the Act is not to affect the operation of the law relating to restraint of trade insofar as that law is capable of operating concurrently with the Act.

66 See Sanderson, *Restraint of Trade in English Law*, (1926) at 19; Beatson, *Anson's Law of Contract*, 27th ed (1998) at 360; Heydon, *The Restraint of Trade Doctrine*, 2nd ed (1999) at 3-13.

67 [1968] AC 269. The tests have been called the pre-existing freedom test, the sterilisation of capacity test, and the trading society test: see *Australian Capital Territory v Munday* (2000) 99 FCR 72. Heydon, *The Restraint of Trade Doctrine*, 2nd ed (1999) uses similar labels.

For references to the pre-existing freedom test, see *Esso* [1968] AC 269 at 298 per Lord Reid, 309 per Lord Morris of Borth-y-Gest and 316 per Lord Hodson. For the trading society test, see *Esso* [1968] AC 269 at 332-335 per Lord Wilberforce.

(Footnote continues on next page)

The appellant here sought to have this Court adopt the sterilisation of capacity test proffered by Lord Pearce, who said this[68]:

> "The doctrine does not apply to ordinary commercial contracts for the regulation and promotion of trade during the existence of the contract, provided that any prevention of work outside the contract, viewed as a whole, is directed towards the absorption of the parties' services and not their sterilisation."

His Lordship added[69]:

> "When a contract only ties the parties during the continuance of the contract, and the negative ties are only those which are incidental and normal to the positive commercial arrangements at which the contract aims, even though those ties exclude all dealings with others, there is no restraint of trade within the meaning of the doctrine and no question of reasonableness arises. If, however, the contract ties the trading activities of either party after its determination, it is a restraint of trade, and the question of reasonableness arises. So, too, if *during* the contract one of the parties is too unilaterally fettered so that the contract loses its character of a contract for the regulation and promotion of trade and acquires the predominant character of a contract in restraint of trade."

53 His Lordship's test involves, in my respectful opinion, the same sorts of difficulties as do the other tests. Lord Pearce refers to "ordinary commercial contracts" and to negative ties which are "incidental and normal to the positive commercial arrangements at which the contract aims". There is great scope for difference of opinion on these matters; indeed, despite what his Lordship says, that no question of reasonableness will arise in the case of ordinary commercial contracts and normal and incidental ties, the question of what is an ordinary commercial contract, or what is incidental and normal will rarely be able to be divorced from a question of what is reasonable between the parties. So too, the question of what is an ordinary commercial contract and what is "normal" when complex commercial arrangements are under consideration will not always admit of one clear answer.

Discussions of the difficulties involved in the various tests can be found in Heydon, *The Restraint of Trade Doctrine*, 2nd ed (1999) and *Australian Capital Territory v Munday* (2000) 99 FCR 72.

68 [1968] AC 269 at 328.

69 [1968] AC 269 at 328-329.

54 It seems to me that, in this case, if Lord Pearce's test were to be treated as the applicable test, either view would have been open. In other words, it would be possible to say that there was a strong element of the absorption of the respondents' capacities to supply a market with a product under a valuable trade name possessed by the appellant, or, that the arrangements were directed towards the sterilisation of the respondents' ability to service that market. Carr J at first instance and the Full Court of the Federal Court (French, Kiefel and R D Nicholson JJ) took the view that the restraint was not normal and incidental to the commercial arrangements between the parties. Given the matrix of the circumstances surrounding the making of the contract between the parties and the terms of the multifaceted agreement between them, I might have entertained some serious doubts whether this was so. As the view taken was open, however, I am not prepared to say that it was erroneously formed. The appellant has accordingly not shown that this agreement, with the restraint contained in it, is outside any category of agreements to which the doctrine applies. Questions of reasonableness or of the application of the *Trade Practices Act* do not therefore fall to be decided in this appeal.

55 I would dismiss the appeal with costs.