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Harris v Digital Pulse Pty Ltd (2003) Equity, Penalties, Controversy and Costs

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I. INTRODUCTION

No other decision of an Australian intermediate appellate court has generated such intense commentary and controversy, locally and internationally, as that of the New South Wales Court of Appeal, delivered in 2003 in *Harris v Digital Pulse Pty Ltd*.[1] Prominent critics include Andrew Burrows,[2] James Edelman[3] and Michael Kirby;[4] prominent defenders include Patrick Keane[5] and Charles Rickett.[6] The judgment coincided with two publications which contributed to the controversy. The Law Commission had recently published its report *Aggravated, Exemplary and Restitutionary Damages*, which 'consider[ed] it unsatisfactory to perpetuate the historical divide between common law and equity, unless there is very good reason to do so'.[7] Conversely,

* I acknowledge the participation of Damien Allen, Andrew Bulley, the Honourable Keith Mason and the Honourable George Palmer, each of whom kindly consented to my interviewing them about the case and reviewed earlier drafts of this chapter. I also acknowledge the helpful response from Ramenka Kako and the research assistance of Beata Szabo.

[1] *Harris v Digital Pulse Pty Ltd* [2003] NSWCA 10, (2003) 56 NSWLR 298 ('*Harris Appeal Judgement*'), allowing an appeal from [2002] NSWSC 33, (2002) 166 FLR 421 ('*Harris First Instance Judgement*').

[2] A Burrows, 'We Do This At Common Law But That in Equity' (2002) 22 *OJLS* 51; A Burrows, 'Remedial Coherence and Punitive Damages in Equity' in S Degeling and J Edelman (eds), *Equity in Commercial Law* (Sydney, Lawbook Co, 2005) 381.

[3] J Edelman, 'A "fusion fallacy" fallacy?' (2003) 119 *LQR* 375.

[4] M Kirby, 'Equity's Australian Isolationism' (2008) 8 *Queensland University of Technology Law Journal* 446.

[5] P Keane, 'The 2009 W A Lee Lecture in Equity; The Conscience of Equity' (2010) 84 *Australian Law Journal* 92.

[6] CEF Rickett, 'Punitive Damages: The Pulse of Equity' (2003) 77 *Australian Law Journal* 496.

[7] Law Commission, *Aggravated, Exemplary and Restitutionary Damages* (Law Com No 247, 1997), chaired by (then) Dame Mary Arden, including Andrew Burrows as a member, Part V, para 1.55. The Commission recommended enacting legislation to authorise exemplary damages for breach of fiduciary duty (which is of course quite different from legal innovation by a court).

the fourth edition of *Meagher, Gummow and Lehane's: Equity: Doctrines and Remedies* (of which I was a co-author) was published while the appeal was pending.[8] It was roundly critical of the reasoning at first instance,[9] and included an unwarranted *ad hominem* attack upon the judge which was not repeated in the following edition.[10] These were years which have been labelled the 'equity wars':[11] 'an unedifying feud of Lilliputian proportions between Little-endian commercial-equity practitioners and judges in New South Wales and Big-endian adherents to the academic neo-roman law philosophy of Peter Birks at Oxford University', as one commentator recently put it.[12]

The broad issue is familiar; indeed it is entrenched in undergraduate curricula as a standard example of the nature of equity and its contrast with common law.[13] Can equity, when an egregious breach of fiduciary duty is established, order pecuniary relief going beyond compensation for loss caused by the fiduciary, taking away assets gained in breach of duty and stripping profits, so as to amount to a penalty? In jurisdictions where the counterparts of Lord Cairns' Act are traditionally worded and the statute is understood to be confined to cases of contracts or torts,[14] the issue presents as one of principle, not directly affected by statute.

There is a threshold difficulty with terminology. 'Equitable compensation' hardly connotes an order which is penal rather than compensatory. 'Damages' suggests a common law remedy for a breach of an equitable duty, and thus the view that such remedies are freely available for breach of any duty, whatever its juristic nature. Evidently conscious of this, Spigelman CJ referred to 'punitive monetary awards', and this chapter will follow the same course. I do not deprecate the significance of the language used to describe legal concepts,[15] but my

[8] The preface is dated 10 September 2002, after the appeal was heard, but with publication occurring before the appeal was determined (see *Harris Appeal Judgement* [60] and [108]).

[9] RP Meagher et al, *Meagher, Gummow and Lehane's Equity: Doctrines and Remedies*, 4th edn (Sydney, LexisNexis Butterworths, 2002) para 2.310.

[10] ibid para 23.020; *cf* JD Heydon et al, *Meagher, Gummow and Lehane's Equity: Doctrines and Remedies*, 5th edn (Sydney, LexisNexis Butterworths, 2015) paras 2.355, 23.595 and 42.190.

[11] See K Mason, *Lawyers Then and Now* (Sydney, Federation Press, 2012) 174–82. See also K Barker's review of S Degeling and J Edelman (eds), *Equity in Commercial Law* (Sydney, Lawbook Co, 2005) in (2007) 70 *MLR* 163 referring to the 'dramatic exothermic effects' associated with the topic of fusion.

[12] S Gageler, 'The Coming of Age of Australian Law' in B McDonald et al (eds), *Dynamic and Principled: The Influence of Sir Anthony Mason* (Sydney, Federation Press, 2022) 26.

[13] See (without attempting to be exhaustive) M Bryan et al, *A Sourcebook on Equity & Trusts in Australia*, 2nd edn (Cambridge, CUP, 2019); A See et al, *Property and Trust Law in Singapore* (The Netherlands, Wolters Kluwer, 2019); G Virgo, *The Principles of Equity & Trusts* (Oxford, OUP, 2012).

[14] See *Force India Formula One Team Ltd v 1 Malaysia Racing Team SDN BHD* [2012] EWHC 616 (Ch), [2012] RPC 757 [389]–[93]; contrast the broadly drafted Victorian provision considered in *Giller v Procopets* [2008] VSCA 236, (2008) 24 VR 1.

[15] 'The label carries with it connotations which cannot but help shape the listener's or reader's understanding. Much of the success of what Richard Dawkins would call the "meme" that is a "fusion fallacy" is its evocative, alliterative and catchy name': M Leeming, *The Statutory Foundations of Negligence* (Sydney, Federation Press, 2019) 62; see also 6–7 and 167.

point is merely that the issue determined by *Harris v Digital Pulse* turned on substance rather than form. No one contended that the order sought by Digital Pulse was unavailable merely because it might be called 'exemplary damages' and 'damages' (whether exemplary or compensatory) were not available for breach of an equitable duty.

The trial judge (Palmer J) and the dissentient on appeal (Mason P) held that punitive monetary awards were available for breach of fiduciary duty. The majority of the Court of Appeal divided. Heydon JA said they were not available. Spigelman CJ held that where a breach of fiduciary duty is based on a contract (such as an employment contract), punitive monetary awards are not available in equity, just as they are unavailable for the breach of contract (Spigelman CJ explicitly left open the more general question of punitive monetary awards in equity).[16] The decision is only authority for the narrower proposition.[17] At the level of authority, *Digital Pulse* leaves unresolved whether a punitive monetary award is available for a breach of an equitable confidence or breach of trust by the trustee of a resulting trust. More generally, *Harris v Digital Pulse* revealed a deep methodological division on the approach to be taken when courts are asked to decide a novel proposition of law. This was picked up almost immediately by the editor of the Australian Law Journal, whose note focused 'on the remarks by the majority to the effect that single judges in equity should no longer consider themselves as able to advance the law',[18] a point returned to below. It is difficult to imagine special leave for a further appeal to the High Court of Australia being refused, but it was not sought. The decision was partly a product of its time, when the way in which equity was to be developed was a highly contested issue, with antagonists on both sides (including, to my regret, me) resorting to rhetoric and invective, and before a reconciliation was worked out, rejecting any notion of automatic fusion but accommodating the possibility of equity and common law drawing upon one another by analogy in appropriate cases.

This chapter attempts to place the Digital Pulse litigation in context, by reference to the primary documents and recollections of the participants at trial, albeit two decades after the event.

II. SOURCES

In addition to the judgments themselves, which are substantial,[19] this chapter draws upon interviews with the trial judge the Hon George Palmer, and with

[16] *Harris Appeal Judgement* (n 1) [4]–[5].

[17] Spigelman CJ's reasons are meaningfully regarded as 'narrower' than those of Heydon JA: see P Herzfeld and T Prince, *Interpretation*, 2nd edn (Sydney, Lawbook Co, 2020) 729 citing *King v Palmer* 950 F 2d 771, 781 (1991).

[18] P Young, 'Perhaps Equity is Beyond Childbearing' (2003) 77 *Australian Law Journal* 221.

[19] They are 176 and 478 paragraphs long, respectively.

the counsel who ran the trial, Andrew Bulley and Damien Allen. Andrew Bulley appeared for Digital Pulse at trial and on appeal (where he was led by Martin Einfeld QC); Damien Allen appeared for Messrs Harris and Eden and the company Juice-D Media Pty Ltd at trial and on appeal (where he was led by Peter Walsh).[20] Those interviews took place after I had reviewed what remains of the original files at first instance and on appeal, extracted from a file archived in a warehouse in western Sydney.[21] The Court of Appeal file includes, fortuitously, the transcript of the appeal, even though ordinarily that would not have been 'filed'. Unfortunately, while the written submissions served in advance of the appeal would have been filed, they are not preserved on the file. However, the generous assistance of one of the counsel, Andrew Bulley, extended to extracting a penultimate draft of the respondent's submissions from his personal back-up storage, so that only the appellants' written submissions are missing.[22] While I spoke to Keith Mason about the formation of the bench and the aftermath of the appeal, I did not seek his recollections, or the recollections of the other members of the Court of Appeal, of the hearing; the transcript is the best evidence of that. In the first instance file, most of the affidavits have survived (with the trial judge's record of objections marked on the original affidavits in hand).[23] Unfortunately, no transcript of the trial appears to be available.[24]

III. THE DISPUTE

Digital Pulse was established in 1996. Its controlling director was Mr Brett Heil. In 1998 it had only one other employee, but it expanded very rapidly, including by employing Mr Christopher Harris and Mr Anthony Eden to work in marketing and web design. Both men's contracts expressly provided that they not compete with Digital Pulse while employed. By mid-1999, Digital Pulse had some 10 employees. Messrs Harris and Eden fell out with Mr Heil towards the end of 1999. They incorporated Juice-D Media Pty Ltd in January 2000, and their employment with Digital Pulse ceased on 4 and 5 February 2000, shortly

[20] Interviews with the Hon George Palmer (7 April 2021), Damien Allen (21 October 2021) and Andrew Bulley (27 October 2021). The lockdown following the outbreak of the delta variant of the COVID-19 virus delayed my interviewing counsel. Each counsel very kindly supplemented their recollection by additional notes.

[21] What remains of the Equity Division and Court of Appeal files, together with two other completely unrelated proceedings from 1996 and 2004, is found in box SC126599, indexed by reference to the Equity Division file 50032/00.

[22] The 'appeal' was, strictly, a concurrent hearing of an application for leave to appeal from a decision from which no appeal lay as of right because the only substantive challenge was to the orders of A$20,000 and exemplary damages, and hence required leave by reason of s 101(2)(r) of the Supreme Court Act 1970 (NSW) because it did not involve a matter in issue exceeding A$100,000.

[23] One of Brett Heil's affidavits is missing from the file.

[24] It seems likely a daily transcript would have been obtained, but it is absent from the file.

after Mr Heil discovered their dealings with Digital Pulse's clients on behalf of Juice (according to him, he was surprised when one client asked him about a meeting at the Cammeray office (which did not exist), and then whether Juice was affiliated with Digital Pulse).[25] Digital Pulse sued them for equitable compensation or an account of profits derived from 10 projects, mostly for the development of websites for clients ranging from various professional firms, a jazz festival, and certain divisions of Coles Myer (a large retail business). Digital Pulse advanced a wide range of claims, notably damages for breach of contract and equitable remedies for breach of fiduciary duty.[26]

IV. THE TRIAL

Lengthy affidavits of Messrs Heil and Harris (each exceeding 200 paragraphs) were read and they were cross-examined, as was Mr Eden. The defendants also prepared affidavits from five lay witnesses[27] explaining why they preferred to deal with Harris and Eden or why there was no profit from the work obtained by Juice, and there was a very lively dispute between expert accountants as to the money made by Juice and the loss suffered by Digital Pulse. Digital Pulse's expert said that the company had suffered losses in excess of A$587,000 from the 10 projects, and also that Juice had made profits of some A$153,000. As will be seen, the trial judge took a very different view of both those opinions.

The evidence concluded on the afternoon of the fourth day (a Thursday). Both counsel had clear recollections of aspects of the trial, two decades later. Both were in their very early years at the Bar.[28] Bulley had a clearer recollection of the trial (where he won) and Allen had a clearer recollection of the successful appeal (memory is often selective). Both recalled that they were very green, and that the trial commenced badly, with too many objections from Allen, irritating the judge, and a failure to prepare the court book by the plaintiff, leading to Bulley's solicitor being called to explain the deficiencies. Bulley's clearest memory was that, after the evidence closed around 3.15pm on the Thursday, he proposed an early adjournment so that he could provide written submissions.

[25] Affidavit of Brett Heil sworn 18 May 2001, para 80. In response, Mr Harris said that Mr Heil was probably making that up: Affidavit of Christopher Harris sworn 1 August 2001, para 186. Mr Harris' evidence was not accepted by the trial judge, although no finding was made on this particular issue.

[26] A claim for copyright infringement was dismissed and no appeal was brought from that decision. Had it been accepted, 'additional damages' under s 115(4) of the Copyright Act 1968 (Cth) (the equivalent of s 97(2) of the Copyright, Designs and Patents Act 1988 (UK)) would have been available on a conventional basis, and with the further consequence that an appeal lay to a Full Court of the Federal Court rather than the Court of Appeal: Jurisdiction of Courts (Cross-vesting) Act 1987 (Cth), s 7.

[27] Ms Tracey Conlan, Ms Ruth Buchanan, Ms Christine Champion, Ms Catherine Gardner and Mr Stephen Rayleigh.

[28] Bulley was admitted in 1997, Allen in 1998. Both had previously worked as solicitors in litigation.

The judge responded that court time was precious and only grudgingly granted him one, on terms that there be written submissions by 8am on Friday. At that stage, the clients (who were in court) told him they were certain they were going to lose. Bulley told me that he worked most of the night drafting submissions, but it was not until 9.30am that they were typed and given to the judge. On the Friday, in closing submissions, and for the first time that week, Palmer J invited counsel in for morning tea.[29] He said he had something to say. Bulley thought it would be a complaint that the submissions were late. Instead, it was an apology for the judge behaving intemperately the previous afternoon, which had been uncalled for. Bulley recalled it was a pity he hadn't said this in open court! The trial judge recollected the same morning tea:[30]

> I do recall feeling very sorry that I had expressed myself intemperately and that I apologised. Bulley may well have thought I should have done so in open court. If he had been brave enough to suggest that at the time – and what barrister of his seniority at the bar would have had such courage? – then I would like to think I would have acted upon his suggestion. Life is full of such regrets!

Allen also recalled that morning tea, but a different aspect. He said the judge said to him 'You must think I am an old [fart]' and he replied 'like a schoolboy'[31] that he did not think he was that old, illustrating a sound rule of advocacy that it is often best not to say the first thing that enters one's head in response to a judge.

Bulley recalled making submissions, based on *Bailey v Namol Pty Ltd*[32] and *Aquaculture Corporation v New Zealand Green Mussel Co Ltd*,[33] in support of the availability of exemplary damages. Allen believed the question of exemplary damages was not really addressed by either side, and that for his part he brushed away the possibility of their being ordered in equity. The trial judge recollected not being greatly helped by either side. To be fair, both counsel would have been preoccupied by the legion of factual disputes both on breach and on quantum emerging from four days of evidence.

V. THE JUDGMENT AT FIRST INSTANCE

The Honourable George Alfred Palmer QC came to the Bar in 1974 and developed a practice in equity and company law. He took silk in 1986 and was

[29] This custom was prevalent when appearing before many trial judges, and subject to the firm rule that nothing could be said about the hearing save for how it was progressing in terms of time. But in a case with two very junior counsel, which involved allegations of fraud, it would have been natural not to have morning tea until the evidence was closed.

[30] G Palmer, Personal communication, 21 June 2022.

[31] D Allen, Personal communication, 14 October 2021.

[32] *Bailey v Namol Pty Ltd* (1994) 53 FCR 102 (Full Ct).

[33] *Aquaculture Corporation v New Zealand Green Mussel Co Ltd* [1990] 3 NZLR 299 (CA).

appointed to the Equity Division of the Supreme Court of New South Wales in April 2001. When the trial took place, between 26 and 30 November 2001, he had recently ceased being the most junior judge in the Court.[34] He is one of the most famous judges the Supreme Court of New South Wales has produced. That is not so much because of his judgments, but rather because of his success as a composer of classical music. His more creative career was the subject of a well-received documentary,[35] and, by chance, a short, playful work he wrote, based on a restaurant in Paris near where he and Penny, his wife of some 51 years, had honeymooned, had been broadcast while I ate breakfast on the morning on which I interviewed him for the purpose of this chapter. The fact that he composed music was far from widely known in 2001, and I cannot help but think that Roddy Meagher, a generous supporter of the arts, might have been less ill-disposed to him had he known as much.[36]

The former judge recalled a trial at the end of the year, conducted by two very junior counsel (both in their first five years at the Bar) and a judgment written in the vacation when (as a very junior judge) he had been assigned as Duty Judge. He recalled acting for a client similar to the defendant when he had been a very junior counsel.[37] He recalled the energy and enthusiasm of the plaintiff's counsel, Andrew Bulley, but nonetheless very little assistance from either side when the question of exemplary damages arose. An entitlement to them had been pleaded, reflecting the egregious and contemptuous nature of the breaches of duty by Mr Harris found at trial, no aspect of which was disturbed on appeal. They assumed greater importance when the trial judge rejected most of the substantial claims for pecuniary relief, either by way of equitable compensation or account of profits.

The trial judge said that Mr Harris 'demonstrated a capacity for extravagant falsehood', including by fabricating three university degrees and five years' more experience in the IT industry than he in fact possessed.[38] Mr Eden was found to have given obviously false evidence concerning whether the clients whose work was diverted to Juice were Digital Pulse's customers.[39]

[34] The next appointment was that of the Hon JC Campbell. He was sworn in on 26 October 2001, serving in the Equity Division and then as a Judge of Appeal until an early retirement in 2012 whereupon he became an Adjunct Professor at the University of Sydney.

[35] 'Judgment Day', aired 5 April 2004 on 'Australian Story', described thus: 'Behind the robes, wig and formalities of life as a judge of the New South Wales Supreme Court, Justice George Palmer has been working for 40 years on his "other life" as a composer. But the music he wrote had never been performed or recorded – until now. Impending deafness prompted Justice Palmer to employ a group of musicians to record the music, and to his own amazement, the project snowballed into a live to air concert at the ABC's Eugene Goosens Hall in Sydney.' (ABC Library Sales <www.abccommercial.com/librarysales/program/australian-story-judgement-day> accessed 7 May 2023.

[36] Palmer told me their enmity dated from the Bar.

[37] The litigation was *Timber Engineering Co Pty Ltd v Anderson* (1980) 2 NSWLR 488 (SC), in which Palmer had been opposed, in a trial over some three weeks, to DE Horton QC.

[38] *Harris First Instance Judgement* (n 1) [34].

[39] ibid [35].

Even so, Digital Pulse failed to make out large parts of its case. Further, when it did establish a breach, the difficulty faced by Digital Pulse was that Juice received no fee for some of the work it had wrongly obtained from Digital Pulse, and had the work been done by Digital Pulse, it would have produced no fee nor any profit.[40] His Honour awarded equitable compensation of A$11,000 for the misuse of some confidential information plus at its election an accounting for profits or equitable compensation for six projects where breach had been found. Prior to the appeal being heard, Digital Pulse had elected to obtain an account of profits in the amount of A$13,119.51 (plus interest) and the loss shown to have been sustained by Digital Pulse was less than A$10,000.[41]

His Honour found that the wrongdoing of Harris and Eden was calculated to produce profit for themselves, and harm to a vulnerable employer, was consciously dishonest and carefully planned.[42] The judge added that the men exulted in their success in diverting work, demonstrating a contumelious disregard for Digital's rights, and that Digital Pulse had probably failed to uncover the full extent of their misconduct.[43] Palmer J was perfectly conscious of the novelty of the proposition that a punitive monetary order could be made, and in marked contrast to judgments which appear not even to have appreciated the novelty of the proposition,[44] explained why in his view it was available in principle.[45] That and the careful analysis of the individual breaches, and the accounting evidence bearing upon each, considerably added to the length of his judgment, to the horror of his new tipstaff for 2002, for whom proofing it was her first task and one which made a lasting impression.[46] Each of Messrs Harris and Eden was ordered to pay 'exemplary damages' of A$10,000. His Honour also ordered the defendants to pay Digital Pulse's costs.

Most accounts of *Digital Pulse* fail to explain how costs influenced the decisions in the litigation. One might readily infer that where the conventional remedies were a mere A$24,000, and even when the controversial exemplary damages of A$20,000 were added, they were trifling compared to the costs of the litigation. The primary documents enable that inference to be tested with some precision. By chance, located on the archived file is the certificate of a costs assessor.[47] The assessment was conducted by junior counsel,[48] who determined that the assessed[49] costs be A$176,474.54.[50] A prescribed fee of A$3,080 was

[40] eg, this was the case for the website design for the Australian Jazz Festival.

[41] See *Harris Appeal Judgement* (n 1) [229].

[42] *Harris First Instance Judgement* (n 1) [118]–[120].

[43] ibid [123]–[124].

[44] *cf Aquaculture* (n 33) 301 'a full range of remedies should be available as appropriate, no matter whether they originated in common law, equity or statute'.

[45] *Harris First Instance Judgement* (n 1) [141]–[173].

[46] Ramena Kako, Personal communication, 27 May 2022.

[47] Introduced by the Legal Profession Reform Act 1993 (NSW), and as described in *Attorney-General of New South Wales v Kennedy Miller Television Pty Ltd* (1998) 43 NSWLR 729 (CA) 731, a regime of assessment had replaced traditional taxation of costs before an officer of the court.

[48] Mr Mark Robinson.

[49] That is, the amount of costs recoverable against the defendants.

[50] See order entered on 7 April 2003 and affidavit of Ingrid Switzer sworn 29 July 2003.

payable for the assessment in accordance with section 203(1) of the Legal Profession Act 1987 (NSW), being one per cent of the amount of costs in dispute at the time the application for assessment was made.[51] This establishes that Digital Pulse's solicitor–client costs were some A$308,000. That is very high indeed for a five-day trial with junior counsel in 2001.

More importantly, the Supreme Court Rules at that time provided that where a plaintiff who had commenced proceedings in the Supreme Court recovered a sum not more than A$225,000, the plaintiff was not entitled to costs 'unless, it appearing to the Court that the plaintiff had sufficient reason for commencing or continuing proceedings in the Court, the Court makes an order for payment'.[52] The rule displaced the 'usual order' that costs followed the event in civil litigation, familiar in Australia and the United Kingdom, but foreign to the United States of America. The judge told me that he anticipated that the plaintiff's costs were enormous. He was right. However, when Digital Pulse succeeded on a novel and important point of principle, there was ample basis for departing from the usual rule as to costs for small claims; hence the costs order in Digital Pulse's favour.

VI. THE APPEAL

There was no challenge to any of the factual findings, or the adverse views of the primary judge on the credit of Messrs Harris and Eden. Nor, in the event that there was power to make a punitive monetary award, was there any challenge to the power being exercised, or to the A$10,000 amounts ordered. Digital Pulse did not for its part file a cross-appeal challenging the findings that its losses had been trifling and Juice's profits meagre. In short, the only challenge to any part of the reasons of the primary judge was as to power: was such an order available?

It is difficult to resist the conclusion that the appeal was driven largely by the objective of obtaining a less unfavourable costs order. An order setting aside the punitive orders of A$10,000 and leaving Digital Pulse to the ordinary position following a small judgment in the Supreme Court would have left Messrs Harris and Eden and Juice hundreds of thousands of dollars ahead. Further, it might be expected that in a 'one issue' appeal, Digital Pulse would be ordered to pay the costs of the appeal, in accordance with the usual rule.

[51] The transcript of the appeal makes it plain that the application for assessment was made before the appeal was heard (and a special order was made staying the execution of the result of the assessment to the extent of two thirds – it being clear that with unchallenged findings of breach and compensation, even if the appeal were allowed, Messrs Harris and Eden and Juice would have to pay at least some of the costs of trial): see transcript, 31 July 2002, 40–41. The fee prescribed by cl 26B(2)(c) of the Legal Profession Regulation 1994 (NSW) for applications for assessment made on or before 31 August 2002 was 1% (the same fee was prescribed for applications made later by cl 55(3)(c) of the Legal Profession Regulation 2000 (NSW)).

[52] Supreme Court Rules, Pt 52A r 33(2) (see now Uniform Civil Procedure Rules 2005 (NSW), r 42.34 to substantially the same effect for proceedings in the Supreme Court recovering amounts less than A$500,000).

The hearing of the appeal was expedited, because steps had been taken to execute the judgment and assess Digital Pulse's costs. Expedition and a stay of execution were granted by Heydon JA on 8 July 2002.[53]

The President of the Court of Appeal allocates judges to each appeal. The appeal obviously exposed an important point of principle, and Heydon JA had heard the application for a stay and an expedited hearing; it is usual in such cases for that judge, who has already been exposed to the issues, to sit on appeal. It was an appropriate case for a very senior bench, hence the Chief Justice and the President. Keith Mason told me that in addition, he thought it on the cards that he and Heydon would disagree, added to the desirability of allocating a very senior third judge to the appeal.

The oral submissions recorded on the transcript, and the respondent's written submissions, are of high quality. There is no reason to doubt that the same was true of the appellants' written submissions. The transcript records a careful, thorough grappling with each aspect of the reasons deployed by Palmer J to justify the existence of a power. Bulley's recollection of working late into the evening on submissions[54] is mirrored by the recollection of his leader Einfeld QC that their researches were 'vast and time-consuming'.[55]

The reasons of Mason P and Heydon JA appear to have been drafted independently and concurrently, which is not unusual when a divergence emerges at the conclusion of the hearing. Both were evidently circulated prior to those of Spigelman CJ.[56] The Chief Justice agreed with the orders proposed by Heydon JA allowing the appeal, setting aside the orders for exemplary damages, but leaving in place the costs orders at first instance. Highly unusually, despite the appellants' success on the only point argued, no order was made for the costs of the appeal, in recognition of the fact that only A$20,000 was at stake and their 'deplorable behaviour' had made the litigation necessary.[57] Further, although the discretion as to the costs of the trial had to be re-exercised on the basis that no order in the nature of exemplary damages should have been made, the Court did not interfere with the order that the defendants pay Digital Pulse's costs. Thus, while the appeal stands as an important landmark in the structure of private law in this country, for practical purposes, it was almost entirely unsuccessful. The appellants were required to pay all the amounts ordered by Palmer J, save for A$20,000, and in addition they were ordered to pay the costs

[53] A single Judge of Appeal may exercise the powers of the Court of Appeal for those purposes: Supreme Court Act 1970 (NSW), s 46. Neither the transcript of argument nor reasons (if any were given) is available.

[54] He told me that he recalled preparing submissions coincided with the birth of his second child.

[55] M Einfeld, *I Object!* (Sydney, Brio Books, 2022) 236.

[56] The Chief Justice introduced his judgment noting he had had the advantage of reading the other two judgments in draft. The explanation at [187] ('Since writing this portion of my reasons I have had the advantage of reading the judgment of the Chief Justice in draft') by Mason P makes it clear that [187] and perhaps some other paragraphs were added after receipt of the Chief Justice's reasons.

[57] *Harris Appeal Judgement* (n 1) [477].

of the appeal. Very occasionally, typically where 'the entire appeal process has been necessitated by the failure of an appellant to take a point in the court below', a successful appellant may be ordered to pay the unsuccessful respondent's costs.[58] The costs order in *Digital Pulse* is, with respect, difficult to justify and it is difficult to think of any comparable case. Indeed, despite their success on the question of law, the order that they pay Digital Pulse's costs in addition to their own must surely have seemed to Messrs Harris and Eden to be somewhat penal.[59]

A further appeal to the High Court of Australia lay only by way of special leave. No application for special leave to appeal was ever brought. The trial judge recalled being told that a group of silks had offered to run the special leave application on a speculative basis,[60] but that Brett Heil was sick of litigation and did not wish to take it any further.

VII. THE JUDGMENTS OF THE COURT OF APPEAL

Heydon JA observed that authority was scant and left the decision at large for the Court of Appeal.[61] His Honour turned to the unavailability of exemplary damages in contract, which was significant because it tended against the trial judge's argument from anomaly based on conduct which constituted both deceit at common law and breach of fiduciary duty in equity. He referred to the abolition of exemplary damages for defamation and for negligence,[62] and under the Trade Practices Act 1974 (Cth), in contrast to its predecessor the Australian Industries Preservation Act 1906 (Cth). He surveyed academic writing, which pointed in both directions, then turned to dicta in a range of decisions much of which amounted to high-level statements that equitable remedies do not punish. He addressed the more generous awards of interest awarded against defaulting trustees (including compound interest), upon which Palmer J had relied, in order to conclude that the purpose was not punitive, but to prevent the fiduciary from retaining any profit. Much the same exercise was conducted in relation to

[58] See *Rockcote Enterprises Pty Ltd v FS Architects Pty Ltd* [2008] NSWCA 39 [123], citing *Hampton Court Ltd v Crooks* (1957) 97 CLR 367 (HCA) 378 and *Miller v Miller* (1978) 141 CLR 269 (HCA) 276–77.

[59] I am grateful to Eleni Katsampouka for noticing that the costs order might reflect punishment for the appellants' deplorable behaviour.

[60] That is to say, on the basis that they would not charge a fee unless the appeal were allowed. Martin Einfeld QC has also written that he advised a further appeal: Einfeld (n 55) 236–37.

[61] Favouring the appellants there were only the dicta of a Full Court of the Federal Court in *Bailey v Namol Pty Ltd* favouring the dissent in *Aquaculture* ('But there is much to be said for the contrary view, put by Somers J in *Aquaculture* (n 33) 302, that 'equity and penalty are strangers') and the decision of the Supreme Court of Western Australia, constituted by Commissioner Pringle QC, in *Yamabuta v Tay (No 1)* (1995) 16 WAR 254 (SC) 261 on an amendment application, the only Australian judgment directly on point, which (as Heydon JA observed) had been far from fully argued.

[62] By s 46 of the Defamation Act 1974 (NSW) and s 21 of the Civil Liability Act 2002 (NSW).

accounting for profits and the making of just allowances. He considered that while there was an onus on the fiduciary to make out a case for just allowances, that was inconsistent with the order being punitive, for 'ordinarily a person subject to criminal punishment bears no burden'.[63] Heydon JA relied on more general arguments: that in substance the proposed change in the law amounted to the judicial creation of a new criminal sanction, and that the fusion effected by the Judicature legislation did not alter the systems of law and equity. He was strongly critical of the results reached in *Aquaculture* and some of the reasoning in Canadian decisions,[64] and regarded the early sixteenth- and seventeenth-century cases as not bearing upon the issue. On the more general topic of the circumstances in which courts below the High Court should develop the law, Heydon JA said:[65]

> As to Sir George Jessel MR's account of the development of equity in *Re Hallett's Estate*, it is true that the rules of equity have changed from time to time, and true that individual Chancellors – and Masters of the Rolls, Lord Keepers and Vice Chancellors – have effected these changes. It is also true that the rules can be changed in future. But those deeds of single judges were done when there was no appellate jurisdiction in the House of Lords, or very limited access to it, at a time before modern parliamentary democracy had developed, and members of parliaments consisted largely of wealthy men who in turn supported Cabinets composed largely of aristocratic oligarchs whom it was difficult to interest in the details of private law. What individual judges did in those constitutional and forensic conditions is not a sound guide to what modern Australian courts, at least at levels below the High Court, can do. A single equity judge in the time of Sir George Jessel MR had the power, the competence, the authority and the capacity to compel acceptance from other judges which only the High Court has now, at least where the change goes beyond the application of existing principles in a new way or marginal extensions of the law.
>
> …
>
> Sir George Jessel MR's judicial life coincided with the time when democracy in a modern form was beginning and the responsiveness of Parliament to social or legal ills was starting to develop. It was a time when the judiciary was small, highly skilled and united. It is now large, less skilled, and far from entirely united. For courts below the High Court to act in the manner of the single judges sitting in Chancery who made modern equity is to invite the spread of a wilderness of single instances, a proliferation of discordant and idiosyncratic opinions, and ultimately an anarchic 'system' operating according to the forms, but not the realities, of law.

Mason P disagreed with most of this. Three matters warrant emphasis. The first is that the President rejected the close analogy with contract, considering rather that the conduct of Messrs Harris and Eden was better characterised as

[63] *Harris Appeal Judgement* (n 1) [336].
[64] Notably, *M(K) v M(H)* [1992] 3 SCR 6 (SCC).
[65] *Harris Appeal Judgement* (n 1) [456] and [458].

tortious than a breach of contract.[66] The second is that the President rejected the submission based on novelty in terms, saying that for decades Australian courts below the High Court had innovated, that it was open to have regard to the endorsement of the position by the Supreme Court of Canada and the New Zealand Court of Appeal. The third is that the President prayed in aid traditional equitable technique in its auxiliary jurisdiction, where novel remedies issued precisely because of the limitations at common law. 'Within its auxiliary jurisdiction, equity intervenes *because of* the deficiencies and inadequacies of the common law. Why should equity turn coy in its exclusive jurisdiction?'[67]

Spigelman CJ rightly said that this case 'raises fundamental issues about the principled development of the law'.[68] His judgment was evidently written in the knowledge that his views would be dispositive, and was well placed to identify the central issues emerging from the competing views of Mason P and Heydon JA. The Chief Justice said that 'the identification of a principle at a high level of abstraction, from which is derived a rule of particular application' was a mode of reasoning incompatible with the traditional common law judicial method. The Chief Justice regarded that an approach as lying at the heart of the reasoning of Palmer J and of the respondent's submissions, saying:[69]

> The general principle appears to be: Persons who go beyond merely breaching their obligations to others and act in contumelious disregard of those obligations should be subject to condign punishment. From that general principle there is to be deduced, with respect to each specific field of the law of civil obligations, a rule empowering the court to award 'exemplary damages' to the party to whom the obligations so breached were owed.

His Honour said that that did not reflect the Australian legal system, adding: 'Our legal tradition is much messier than that'.[70] He insisted upon the distinctiveness of common law and equity, aided by the late enactment of judicature legislation in New South Wales. He relied upon the fact that the egregious conduct of Messrs Harris and Eden was no different from that of other fiduciaries over centuries, and thus the absence of Australian and English decisions tended to confirm that it was a matter for legislative intervention if a change were to be made. The Chief Justice regarded the contractual analogy as more appropriate, because the source of the employees' fiduciary obligations lay in

[66] There is also a suggestion in ibid [189] that his Honour while recognising that exemplary damages for breach of contract were unavailable until the High Court changed its position, thought that that was a 'peculiar' position.

[67] ibid [224].

[68] ibid [6].

[69] ibid [12].

[70] ibid [14]; *cf* Professor Simpson's observations that 'We must start by recognizing what common sense suggests, which is that the common law is more like a muddle than a system, and that it would be difficult to conceive of a less systematic body of law': AWB Simpson, *Legal Theory and Legal History: Essays on the Common Law* (London, Hambledon Press, 1987) 381, and see *Fistar v Riverwood Legion and Community Club Ltd* [2016] NSWCA 81, (2016) 91 NSWLR 732 [50].

contract. Thus the unavailability of exemplary damages for the undoubted breach of contract pointed against the unavailability of a similar remedy for their undoubted breach of equitable obligation. Finally, he hypothesised a contract with an express provision that a payment of A$10,000 would be made if there was a breach in addition to damages or an account of profits. That would be struck down as a penalty. Considering that as an aspect of the common law of contract,[71] he said that there was no basis to think that equity would override that aspect of the common law. It followed that for equity to award exemplary damages would create an incompatibility.

VIII. CONSIDERATION

I return to the broad statements about the appropriateness of courts lower than the ultimate appellate court to make law. Undoubtedly times have changed since the day of Sir George Jessel: the judiciary is larger, not to mention much more prolix, and many bodies are now tasked with law reform. But if the approach in *Digital Pulse* were applied in terms, it would work a great change to the lawmaking function possessed and exercised by all courts, most notably in the construction of statutes, which constantly give rise to contestable points unlikely to have been foreseen by their drafters.

There seem to me to be three aspects which are underplayed by the majority. The first is to observe that all four judges 'made law' in a real sense. There was no fully reasoned Australian authority on the point before *Harris v Digital Pulse* was determined. The members of the majority who rejected the availability of punitive pecuniary remedies made law just as much as the trial judge or the dissentient who held to the contrary. The judges did not have a choice in the matter; the appeal had to be resolved, one way or another.

The second is that it is to be recalled that the High Court of Australia was an intermediate court of appeal for most of its existence. In appeals concerning private law, almost every decision was liable to further appeal to the Privy Council until the last few decades of the twentieth century. Much of the nuance in the work of Sir Owen Dixon and Sir Victor Windeyer reflects an appreciation of this. Yet it could not for a moment be said that there was a want of legal innovation in the Australian High Court at its apogee. More generally, and as any poet or composer is acutely aware, the welcoming of constraints may be the deepest secret of creativity.[72]

[71] The Chief Justice regarded this as a rule of common law in *Harris Appeal Judgement* (n 1) [60]; in Australia, it is now seen as an aspect of equity: *Andrews v Australia and New Zealand Banking Group Ltd* [2012] HCA 30, (2012) 247 CLR 205. The United Kingdom Supreme Court and the Singapore Court of Appeal have subsequently taken (different) divergent courses: *Cavendish Square Holding BV v Talal El Makdessi* [2015] UKSC 67, [2016] AC 1172 and *Denka Advantech Pte Ltd v Seraya Energy Pte Ltd* [2020] SGCA 119, [2021] 1 SLR 631.

[72] See, generally, D Hofstadter, *Le Ton beau de Marot: In Praise of the Music of Language* (New York, Basic Books, 1997) and at xix in particular.

The third point is empirical. McHugh JA wrote – shortly after his appointment to the Court of Appeal of New South Wales, and prior to his elevation to the High Court – that there were 'a significant number of cases where an intermediate court of appeal has a creative role open to it'.[73] My own experience over the last decade sitting in the same court is the same.[74] The principal reason emerges from practical realities of workflow. It is of course not uncommon for an ultimate appellate court to be asked to change the law: those courts tend to control their own workload through a filtering system, and often what could only ever be a formal challenge in a lower court may be fully argued in the ultimate appellate court. However, while such challenges form a greater *proportion* of appeals in ultimate appellate courts than in intermediate appellate courts, it must also be borne in mind that many more appeals are heard and determined in the latter. The New South Wales Court of Appeal and Court of Criminal Appeal determine some 600–700 appeals each year, which is an order of magnitude more than are determined by the High Court of Australia.[75] Most of those appeals involve no challenge to any proposition of law, but their sheer volume means that even though challenges are relatively rare, they may still be quite numerous. Moreover, those challenges which are made in the High Court tend to have been advanced in lower courts, sometimes by way of formal submission, but at other times substantively; after all, a good reason for refusing special leave to appeal is that the point was not taken in the lower courts.

Most contemporary lawmaking involves statute.[76] The Digital Pulse litigation presented a rare example of an unresolved question of law in an area largely unaffected by statute, and it was necessary for the courts to resolve it. There is force in the inertial proposition on which Spigelman CJ relied that where the conduct has recurred for centuries, the absence of authority for a particular order tells against its availability. But that cannot be determinative, otherwise manufacturers would still not be liable in negligence for harm to consumers caused by defects in their goods,[77] *Anton Piller* orders would never be made, and so on. Sometimes there is a place for innovation, and thus the status quo falls short of a compelling reason telling against innovation. Otherwise, the law would lose something of its suppleness and capacity to accommodate to changing conditions.

[73] M McHugh, 'Law Making in an Intermediate Appellate Court: The New South Wales Court of Appeal' (1987) 11 *Sydney Law Review* 183, 186.

[74] In 2020, I participated in 23 decisions which involved a determination of novel questions of law unconstrained by binding authority: the decisions, and the points determined, may be seen in M Leeming, 'The Modern Approach to Statutory Construction' in B McDonald et al (eds), *Dynamic and Principled: The Influence of Sir Anthony Mason* (Sydney, Federation Press, 2022) 46–47.

[75] The actual number of decisions (counted by media neutral citation) for the last three calendar years (2019–21) are: High Court: 50, 48, 44; New South Wales Court of Appeal and New South Wales Court of Criminal Appeal: 323 + 321 = 644; 361 + 356 = 717; 342 + 319 = 661.

[76] See Leeming (n 74) 45–48.

[77] *cf MacPherson v Buick Motor Co* 217 NY 382, 111 NE 1050 (1916); *Donoghue v Stevenson* [1932] AC 562 (HL).

The result of *Harris v Digital Pulse* was that there was divergence in the law of Australia and Canada and New Zealand[78] (for although the decision was merely that of an intermediate appellate court, it would be difficult for another intermediate appellate court to reach a different conclusion). This disunity in the common law recalls Sir Victor Windeyer's article, 'Unity, Disunity and Harmony in the Common Law',[79] which refers to the reference in *Tomlins' Law Dictionary* to 'the continual hesitation of lawyers' in the Privy Council in the time of William III. There is a long tradition of a suspicion of innovation. *The Book of Common Prayer* contrasted some that

> think it a great matter of conscience to depart from a peece of the least of their Ceremonies; they be so addicted to their old customs' from those 'on the other side, some be so newfangled, that they would innovate all things, and so despise the old, that nothing can like them but that is new.

Windeyer made the point that there was a middle way, based on discerning from history the flowing stream of the law, an approach which in turn rests on the fundamental observation that 'the greatest quality of our system of law is in its capacity for development in response to the developments of the society in which it rules'.[80]

Chief Justice Spigelman's reasons were distinctive in two respects. The first was their narrowness. The Chief Justice confined his decision to cases where fiduciary obligations were sourced in contract, and left open the position for breach of fiduciary duties not based on contracts. His Honour held that as a matter of coherence with the law of contract, it would be wrong to permit a remedy denied to cases which could also be run as actions for breach of contract. A difficulty with the second aspect of the reasoning is that most such cases would be capable of being run as an action in deceit, focusing upon the knowing lies told by Messrs Harris and Eden, that being the conduct going to the heart of what gives rise to the need for punishment. But Digital Pulse declined to advance any such case. For many years, plaintiffs have had choices in the causes of action they litigate, and the choice between contract, tort and breach of fiduciary duty (and indeed the availability of (statutory) contributory negligence as a partial defence to those claims)[81] is a prominent aspect of the legal system which has been erected ad hoc and with practicality rather than logicality in mind.[82]

[78] New Zealand courts have, unsurprisingly, noticed *Harris v Digital Pulse Pty Ltd* but continued that country's less circumscribed approach to remedies: see *Skids Programme Management Ltd v McNeill* [2012] NZCA 314, [2013] 1 NZLR 1 [120]–[24] and the decisions there mentioned.

[79] B Debelle (ed), *Victor Windeyer's Legacy: Legal and Military Papers* (Sydney, Federation Press, 2019) ch 10.

[80] ibid 123.

[81] Notably, see the reasoning in decisions roughly contemporaneous with *Harris v Digital Pulse* in *Astley v Austrust Ltd* [1999] HCA 6, (1999) 197 CLR 1 and *Pilmer v Duke Group Ltd (in liq)* [2001] HCA 31, (2001) 207 CLR 165.

[82] This theme is developed in M Leeming, 'Overlapping Claims at Common Law and in Equity – An Embarrassment of Riches?' (2017) 11 *Journal of Equity* 229.

For those reasons, the considerations of coherence may be less powerful than was indicated by the Chief Justice.

Parts of Spigelman CJ's judgment anticipate the powerful reaction in recent Australian law against so-called 'top-down' reasoning. Decisions in the following years such as *Roxborough v Rothmans of Pall Mall Australia Ltd*,[83] *Lumbers v W Cook Builders Pty Ltd (in liq)*[84] and *Bofinger v Kingsway Group Ltd*[85] rejected a methodology which would derive rules of decision in particular cases from general principles (notably, in unjust enrichment). His Honour's judgment recalled what Lord Radcliffe had said half a century earlier, to the effect that 'English common law' (including Equity) 'seems to me rather short on philosophy and rather uncertain in logic', and that 'Its virtue has lain in other things: in its copiousness, in a strong sense of the practical, in a readiness to keep its nose to the grindstone'.[86]

This chapter concludes with a personal note. I appeared as a junior counsel not much senior to Bulley and Allen before Palmer J only a few months after the publication of the fourth edition of *Equity: Doctrines and Remedies*.[87] I recall worrying whether I needed to tell my solicitor of the criticism in the book on the judge. I need not have worried. Palmer J was strict and even-handed and scrupulously fair. I think he well appreciated that the language was that of his old *bête-noire*, Roddy Meagher.

[83] *Roxborough v Rothmans of Pall Mall Australia Ltd* [2001] HCA 68, (2001) 208 CLR 516 [73]–[74].

[84] *Lumbers v W Cook Builders Pty Ltd (in liq)* [2008] HCA 27, (2008) 232 CLR 635 [84]–[85].

[85] *Bofinger v Kingsway Group Ltd* [2009] HCA 44, (2009) 239 CLR 269 [86]–[89].

[86] C Radcliffe, 'The Place of Law Courts in Society' in *Not in Feather Beds* (London, The Quality Book Club, 1968) 31. While conscious of a movement for 'a thorough-going rationalisation', Radcliffe found that much of the argument that it promoted seemed sterile.

[87] *Alfabs Engineering Group Pty Ltd v Regan* [2002] NSWSC 316.