

CA : Appeal from an order of the Vice Chancellor, before Schiemann L.J., Chadwick L.J., Jonathan Parker L.J.:
31st July 2003

JUDGMENT : LORD JUSTICE CHADWICK L.J.:

1 This is an appeal from an order made on 20 December 2002 by the Vice-Chancellor on an application made by the appellant, The Prudential Insurance Company of America ("Prudential USA"), in trade mark proceedings between The Prudential Assurance Company Limited ("Prudential UK") and Prudential USA now pending in the High Court. The relief sought on that application was an order restraining the use by Prudential UK, in trade mark proceedings in Taiwan and New Zealand, of letters and documents passing between the parties between 1974 and 1996, on the grounds that those letters "are protected by privilege under the 'without prejudice' rule". The Vice-Chancellor refused that order and dismissed the application. But he gave permission to appeal on the basis that this Court should have the opportunity to consider the ambit of "without prejudice" privilege in the context of the Human Rights Act 1998 and proceedings in other jurisdictions.

The underlying facts

2 The historical background underlying the trade mark litigation in which the parties are now engaged, in these courts and elsewhere, was described by Laddie J. in an earlier judgment of the High Court, [2002] EWHC Ch 534, now reported at [2002] E.T.M.R. 1013 and [2002] I.P.&T. 781. It is unnecessary to rehearse that background at length in this judgment. I may, perhaps, be permitted to adopt the summary set out in my own judgment in this Court, [2003] EWCA Civ 327, on the appeal from Laddie J.: *"For well over one hundred years each of the parties has carried on insurance business. They, and their respective group companies, now offer a wide range of financial services. Although in competition, Prudential (USA) has derived its business, principally, from the United States of America, while Prudential (UK) has operated mainly in the United Kingdom and other parts of Europe. Until recently, they had managed to co-exist without undue conflict under arrangements made in 1974. Those arrangements provided that Prudential (UK) would not use the "PRUDENTIAL" name or mark in the United States; and that Prudential (USA) would not use that name or mark in Europe or in certain countries of the Commonwealth. Prudential (UK) asserts that the arrangements constitute an agreement binding in law. Prudential (USA) accepts that the arrangements were made; but denies that they were intended to have, or do have, legal effect."*

The question whether or not the arrangements made in 1974 constitute an agreement binding in English law remains to be resolved in these proceedings. But the fact that arrangements were made under which the parties managed to co-exist without undue conflict for the next 20 years provides the context for the correspondence passing between the parties thereafter.

The letters and other documents

3 The application before the Vice-Chancellor was made by notice dated 16 October 2002. It sought an order in the form of the draft attached thereto.

4 Paragraph 1 of the draft order required the withdrawal by Prudential UK from proceedings 3343/90 in the Taipei District Court in Taiwan of *"the letters exhibited at Exhibits 24 to 29 of the defence document filed on 12 July 2002 in those proceedings ..."*. Those letters comprise (i) a letter of 26 September 1986 from the chairman of Prudential UK to the executive vice-president of Prudential USA and the reply dated 8 October 1986, (ii) a letter dated 12 January 1995 from the vice-chairman of Prudential USA to the chief executive of Prudential UK, a letter of 3 February 1995 from the chairman of Prudential UK in reply to that letter, and a letter of 6 February 1995 in reply to the letter of 3 February 1995 and (iii) a letter of 17 October 1995 from the assistant general counsel of Prudential USA to the director of legal services, Prudential UK, with a draft of a letter to be addressed to *"Whom it may concern"*-- alternatively, to the Trade Mark Office, People's Republic of China--and to be jointly signed on behalf of the two companies.

5 Paragraph 2 of the draft order required the withdrawal from proceedings before the Taiwan Trade Marks Registry in opposition to trade mark applications 88/051084 and 88/013541 filed on behalf of Prudential USA of *"the letters set out in the Schedule hereto"*. There is no schedule attached to the draft order--at least, no such schedule has been included in the bundles provided to this Court--but the letters to which paragraph 2 of the draft order appears to relate are those identified in paragraph 17.3 of a witness statement made on 18 October 2002 by a solicitor in support of the present application and

exhibited as "TWH 8" to that witness statement. They comprise (i) the letters and draft letter referred to in paragraph 1 of the draft order, (ii) a letter dated 26 January 1995 from the director of legal services, Prudential UK, to the assistant general counsel, Prudential USA, (iii) a draft memorandum of understanding between the two companies, dated 10 March 1995, (iv) letters dated 7 and 18 April, 16 and 30 May, 2 June, 16 August, 20 and 27 September and 3 October 1995 between the in-house lawyers and (v) a letter dated 9 October 1995 from the vice-chairman, Prudential USA, to the group chief executive, Prudential UK.

- 6 Paragraph 3 of the draft order required the withdrawal from proceedings before the New Zealand Trade Marks Registry of documents attached to a statutory declaration made on 18 June 2002 by the company secretary of Prudential UK. In so far as those documents can be identified in the bundles provided to this Court, they extend over some 300 pages. They are described compendiously, in paragraph 18 of the witness statement of 18 October 2002 to which I have referred, as "*copies of correspondence between the parties covering a period of years from 1974 to 1996*". They include the letters, draft letter and draft memorandum already identified in paragraphs 1 and 2 of the draft order. It is said, at paragraph 19 of the witness statement of 18 October 2002, that the documents "*may have been filed to evidence [an agreement between the parties which [Prudential UK] alleges relates to New Zealand registrations of Prudential US]*". Paragraph 19 continued in these terms: "*The terms of the alleged agreement are not specified but presumably are alleged to relate to New Zealand. However, various parts of the correspondence are clearly wholly unrelated to the New Zealand dispute and include admissions against interest concerning likelihood of confusion between the parties' respective marks in other jurisdictions.*"

The relief sought under paragraph 3 of the draft order is confined, by paragraph 20 of the witness statement of 18 October 2002, to an order requiring withdrawal of "all these documents from the New Zealand Registry Proceedings save to the extent that Prudential UK can demonstrate it is entitled to rely on them under a legitimate exception to the without prejudice rule." The draft order provided for there to be described in a schedule documents "*to which the Claimant has demonstrated legitimate exception, in the context of those [New Zealand] proceedings, to the without prejudice privilege attaching to those documents*".

- 7 By paragraph 4 of the draft order Prudential USA sought a declaration that: "*the said documents, and any other correspondence between the parties relating to how each of them may use their respective "PRUDENTIAL" marks and variants thereof, in settlement of any dispute concerning such marks, are protected by privilege under the 'without prejudice' rule, notwithstanding their use as evidence in these proceedings or in the Taiwan and New Zealand proceedings referred to above;*"
- 8 It can be seen that the relief sought on the application has little or nothing to do with any issue which has to be resolved in these proceedings. It has not been suggested that the correspondence attached to the statutory declaration filed in the New Zealand proceedings--all of which was, I think, before Laddie J. at an early stage in these proceedings--cannot be used in these proceedings. *Prima facie*, at least, that correspondence--or most of it-- is or may be relevant to the question whether or not the 1974 arrangements constitute an agreement binding in English law. On that basis it is accepted that the use of that correspondence in these proceedings falls within a "*legitimate exception*" to the "without prejudice" rule. The concern which drives the present application is that the correspondence should not be used in proceedings in which the question whether the 1974 arrangements constitute an agreement, binding under the applicable law, is not in issue; and that, in proceedings in which that question is in issue, the correspondence should not be used save in so far as it is relevant to that issue.
- 9 It is necessary, I think, to describe the correspondence in a little more detail than will have appeared so far:
- (1) The 1974 letters follow a meeting between senior executives in London at the beginning of March in that year. On 7 March 1974 Mr Haslam, the chief general manager of Prudential UK, wrote to Mr MacNaughton, the chairman and chief executive officer of Prudential USA, to record what he described as "*the tenor of the verbal agreement reached*" on suggestions "*put forward to identify the areas in which each of our companies would be free to use the name Prudential with a view to removing the prospect of any future disputation between us on this score.*" He set out his understanding of "the agreement" under three paragraphs. Mr MacNaughton wrote in response to that letter, on 28 March 1974, to clarify "*the*

understanding" reached but otherwise confirming that "your letter does set forth precisely the results of our conversation". On 13 May 1974 Mr Haslam replied, apologising "for the delay in replying to your letter of the 28th March concerning the understanding we would both like to reach on the use of the name Prudential and expressing delight that "there is clearly such agreement in broad principle between us and the only differences seem to be minor practical ones." In two further letters, of 19 and 29 July 1974, each was able to assure the other that they had reached "a complete understanding".

- (2) There are only two letters from 1975. They record steps taken by Prudential UK to comply with the arrangements made the previous year; and an assurance from Mr MacNaughton that "*Should the occasion arise, we too will live up to our end of the bargain*". That assurance was honoured in the following year when, after correspondence between Mr Haslam and Mr Beck, the president of Prudential USA, the latter decided not to use the Prudential name in connection with a European re-insurance subsidiary.
- (3) Senior executives met at the end of 1977 to review the way in which the arrangement was working. Concern was expressed lest "as memoranda are communicated down through the organization ... the intent and spirit of understandings are lost in the preoccupation with meaning of words". But the outcome was expressed to be "completely satisfactory". Mr Sherwood, executive vice president of Prudential USA was able to write to Mr Haslam, on 21 December 1977, recording that the meeting had "served to confirm that you feel, as we do, that the important thing for all of us to keep in mind is the purpose of the agreement and the readiness on both sides to sit down and talk about problems if and when they occur".
- (4) The pattern of discussing and resolving problems as and when they occurred was followed through 1978 and 1979--in particular, in relation to the use of the name "Prudasco" for Prudential UK's Quebec subsidiary--and into 1980--in relation to the growth of Prudential UK's re-insurance business in Puerto Rico. In 1980 Prudential USA applied to register the mark Prudential in Portugal, and in certain countries in Eastern Europe, but withdrew those applications after it had been pointed out by Prudential UK that they were perceived as in breach of the understanding or agreement.
- (5) There was a further meeting between senior executives in October 1982 to discuss, in particular, "*the question of Canadian names*" and the "*re-naming of the Bache operation*"--an investment management business which had been acquired by Prudential USA. After initial disagreement in correspondence following that meeting, a mutually acceptable solution was reached on both matters.
- (6) The pattern continued throughout the years 1983 to 1986. In 1986 further consideration was given to the principles underlying the 1974 arrangement, in the context of the desire of Prudential USA to broaden its activities in Asia. That led to a meeting in London at the end of August 1986. It was following that meeting that the chief general manager of Prudential UK (Mr Corby) wrote to the executive vice president of Prudential USA (Mr Kittredge) the letter of 26 September 1986, the use of which paragraphs 1 and 2 of the draft order seek to restrain. The letter contained the following passage: "*I now attach a summary of the position we reached and I would be grateful for your comments. I think it would be useful if we have it in mind that we should try to discuss developments on perhaps an annual basis.*"

The summary confirmed, in the first paragraph, that there was to be no change "*in relation to the business considered in discussions some 10 years ago*"--that is to say, no change in the arrangements recorded in the 1974 exchange of letters. Paragraph 2 of the summary recorded that investment management business was to be treated in the same way as insurance and reinsurance business. Paragraph 3 recorded that either company might undertake ventures in new geographical areas; and that "*where both companies are operating in the same market each would use its best endeavours to avoid any confusion*". Paragraph 4 gave the consent of Prudential UK to the use by Prudential USA of the name Prudential-Bache, on the basis that that did not extend to investment management business in the United Kingdom and other reserved areas. Paragraph 5 provided that "Both companies will continue to consult if either is in doubt as to interpretation". In his reply to that letter, dated 8 October 1986, Mr Kittredge gave particulars of the operations in which Prudential-Bache would be engaged, and concluded: "*I may possibly have included more than necessary in this letter in the interests of full disclosure.*"

However, as we discussed during the meeting in August, the openness between the two companies has been critical to our making the understanding made ten years ago work well. We have every intention of continuing such openness and endorse the concept of meetings perhaps once a year to help the flow of communication."

There were some further letters in the last months of 1986, but they were by way of further clarification of the Prudential-Bache operation.

- (7) Letters in the years 1987 to 1995 show the parties operating within the 1974 arrangements--as extended following the meeting in August 1986. It is not suggested that that correspondence is of any greater significance; and it is not, I think, necessary to refer to it in detail. As problems were identified, they were notified by one party to the other and resolved. The tenor of the correspondence appears from the final paragraph of a letter dated 5 January 1994 from Mr Keith, vice chairman of Prudential USA, to Mr Newmarch, chief executive of Prudential UK: *"We appreciate your cooperation and continued commitment to making our 1974 agreement work and adapt to our companies' evolving needs."*
- (8) On 12 January 1995 Mr Keith wrote to advise Mr Newmarch *"of action which we have taken in the People's Republic of China with respect to the 'Prudential' name"*. He went on to say this: *"It appears that both of our companies have an interest in pursuing business opportunities in China under the 'Prudential' name, in one form or another, and have taken steps to secure servicemark protection of the name for our respective uses. On learning of your company's servicemark application, and the January 6, 1995, deadline for filing an opposition thereto, we elected to make an opposition filing. We did so as a defensive measure, to preserve an opportunity to discuss these issues with you directly rather than to fight them out before the authorities in the PRC.*

In addition to merely providing you with this notice of our action, it is my hope that we can begin a dialogue that will permit us to come to some mutually agreeable terms governing our respective uses of the 'Prudential' name in China. It is potentially an important market for us both. Hence the best solution may be some form of concurrent use agreement, with steps being taken to avoid confusion by clearly indicating parentage and 'county of origin' (sic) of the parent, much as we have done in Canada.

If this suggestion is of interest to you, please contact me so that we can work out the details. Our companies' willingness to cooperate and compromise on matters such as these in the past have stood us in good stead. I hope we can do the same with respect to China."

That is the first of the four 1995 letters which are the subject of paragraph 1 of the draft order. The reply, dated 3 February 1995, is from Sir Brian Corby, by then knighted and the chairman of Prudential UK--Mr Newmarch having resigned in the interim. He referred to "the discussions which took place in 1986" and to the agreement, as a result of those discussions, that *"in new geographical areas where both companies commenced operating in the same market each would use its best endeavours to avoid confusion"*. He went on: *"Nevertheless, in the same spirit of cooperation as has prevailed for the last twenty years, we are prepared to follow the Canadian precedent subject to one proviso. I think that in the event of its becoming evident that there is confusion being caused, the position should be reviewed. Furthermore, if the confusion is clearly substantial, and assuming we have succeeded in obtaining a service mark registration for 'PRUDENTIAL', then further steps will be taken on your side to dispel that confusion. We can of course discuss what those steps are to be, if and when the need should arise"*

In his reply to that letter, dated 6 February 1995, Mr Keith suggested a meeting *"to work out mutually compatible naming and branding strategies for Asia"*. He wrote: *"I would propose that we try to work out a generalized solution, letting each of us operate throughout Asia. We would each depend primarily on our local language names and logos for differentiation. We can recognize where each of us has 'first claim' to Prudential, but in that country the other could use a form of Prudential in conjunction with their local name: The Prudential Corporation with your logo in your case, and The Prudential Insurance Company of America with our logo in our case."*

- (9) Following that exchange of letters Sir Brian Corby and Mr Keith met in New York on 23 February 1995. On the next day Mr Keith was able to write that he was encouraged *"that we can resolve the name issue in China and set some general guidelines for dealing with name issues in other countries in Asia"*. The matter then passed to the in-house lawyers. They met on 10 March 1995 to discuss a draft, prepared

by Mr Councill, director of legal services, Prudential UK, of a "memorandum of understanding". The letters dated 7 and 18 April, 16 and 30 May, 2 June, 16 August, 20 and 27 September and 3 October 1995 between Mr Councill and his opposite numbers at Prudential USA--Mr Meade, vice president and associate general counsel, and Mr DeWald, assistant general counsel--show the in-house lawyers striving towards a mutually acceptable solution. A difficulty, in relation to the People's Republic of China, was identified in the letter of 20 September 1995 from Mr Councill. He wrote: *"We have now been advised by local trade mark agents that Chinese law does not allow the concurrent registration of marks having a common main word or feature, especially when the respective designated services are the same."*

Mr DeWald thought that problem could be overcome. On 27 September 1995 he replied: *"We remain cautiously optimistic that the PRC Trademark Office might be willing to approve an accommodation for concurrent use, and possibly some form of registration, particularly, if jointly proposed by both parties, as we have previously discussed."*

- (10) Both Mr Keith and Mr Peter Davis, the new group chief executive of Prudential UK, were to visit Beijing during October 1995. Mr Keith had hoped to meet the relevant Minister to discuss trade mark issues. His letter of 9 October 1995 to Mr Davis recorded that the Minister would not be available; and expressed frustration *"because I believe that getting a resolution in PRC is an integral part of trying to come to an overall set of name proposals for Pru U.K./Pru U.S. in Asia"*. On 17 October 1995 Mr DeWald wrote to Mr Councill: *"It has been suggested that it could be helpful to resolution of the issues in China to give a jointly signed letter to the Chinese, confirming our agreement in principle and request for their approval of concurrent use and registration."*

Perhaps Mr Davis could present such a jointly signed letter, formalizing our agreement in principle for joint use and requesting permission for co-existing registrations, to the appropriate Chinese officials during his visit.

I attach a draft letter which we believe succinctly reflects our agreement in principle. We would appreciate your review and comments. Do you think this would be an acceptable procedure?"

The draft letter--which (so far as appears from the material before this Court) was never agreed or signed--was addressed *"To Whom It May Concern"*. It was in these terms: *"This letter formally confirms the agreement between The Prudential Corporation, plc, and The Prudential Insurance Company of America. The parties agree that both may use, and apply to register, one or more trademarks with the English word 'Prudential', in the People's Republic of China.*

Both parties agree that there will not be a likelihood of confusion from these uses or registrations. This is because both parties intend to use 'Prudential' only in conjunction with distinctive names in the Chinese language, different logo designs (the face of 'Prudence' for Prudential Corporation, and the Rock of Gibraltar for Prudential of America) and reference to their own country of origin.

The parties respectfully request that in consideration of this agreement The Trademark Office of The State Administration for Industry and Commerce of the People's Republic of China permit both parties to be allowed to register one or more marks in International Class 36 which contain the English word ' Prudential'."

- (11) As I have said, there is nothing in the material before this Court to suggest that a letter in the form of that draft was agreed or signed on behalf of the parties. On 16 July 1996 Mr Keith wrote to Mr Davis, referring to the efforts which had been made since the meeting in February 1995 and pointing out that *"The objecting that each of us does in various places is to maintain position while we get to a solution in China that can guide positive resolutions elsewhere"*. The letter went on: *"Once a solution has been reached in China, we will use that as a guideline for naming options for you in the Philippines, or elsewhere, and for us in India or other places where you have clear priority on the use of the name Prudential."*

The "without prejudice" rule

- 10 The "without prejudice" rule was described by Lord Griffiths, in **Rush & Tompkins Ltd v Greater London Council and anor** [1989] A.C. 1280, 1299D, as *"a rule governing the admissibility of evidence ... founded on the public policy of encouraging litigants to settle their differences rather than litigate them to a finish"*. The public policy underlying the rule had been explained by Oliver L.J. in **Cutts v Head and anor** [1984] Ch 290, 306C-G, in a passage which Lord Griffiths expressly approved: *"That the rule rests, at least in part, upon public policy is clear from many authorities, and the convenient starting point of the inquiry is the nature of the*

underlying policy. It is that parties should be encouraged so far as possible to settle their disputes without resort to litigation and should not be discouraged by the knowledge that anything that is said in the course of such negotiations (and that includes, of course, as much the failure to reply to an offer as an actual reply) may be used to their prejudice in the course of the proceedings. They should, as it was expressed by Clauson J. in Scott Paper Co v Drayton Paper Works Ltd (1927) 44 R.P.C. 151, 156, be encouraged fully and frankly to put their cards on the table The public policy justification, in truth, essentially rests on the desirability of preventing statements or offers made in the course of negotiations for settlement being brought before the court of trial as admissions on the question of liability."

- 11 But, as Oliver L.J. pointed out in **Cutts v Head** (*ibid.*, 306E-F), the rule cannot rest solely upon a public policy to encourage out-of-court settlement; for, if it did, it would not protect correspondence, entered into in the context of abortive negotiations for settlement, from disclosure (after a trial) as an aid to the court when deciding which party should bear the costs of the litigation. As Oliver L.J. put it: "*As a practical matter, a consciousness of a risk as to costs if reasonable offers are refused can only encourage settlement whilst, on the other hand, it is hard to imagine anything more calculated to encourage obstinacy and unreasonableness than the comfortable knowledge that a litigant can refuse with impunity whatever may be offered to him even if it is as much as or more than everything to which he is entitled in the action.*"

It is necessary to find some other basis for the rule in order to justify its application to a post-trial consideration as to where costs should fall. Oliver L.J. found that basis in "*an implied agreement imported from the marking of a letter 'without prejudice' that it shall not be referred to at all*" (*ibid.*, 307B-C). That view, with which Fox L.J. agreed, enabled the Court to hold, in **Cutts v Head**, that an offer which--because it was marked "*without prejudice*"--would be subject to an implied agreement that it should not be referred to in the litigation could be made subject to the express reservation "*save as to costs*"; so recognising, in High Court litigation generally, the practice approved in family cases by Cairns L.J. in **Calderbank v Calderbank** [1976] Fam 93, 106.

- 12 That there are two distinct bases upon which the "*without prejudice*" rule may rest was recognised by this Court in **Muller v Linsley and Mortimer** [1996] 1 P.N.L.R. 74--a decision which followed **Rush v Tompkins** in time. Hoffmann L.J. explained (*ibid.*, 77B-C): "*Cutts v Head shows that the rule has two justifications. Firstly, the public policy of encouraging parties to negotiate and settle their disputes out of court and, secondly, an implied agreement arising out of what is commonly understood to be the consequences of offering or agreeing to negotiate without prejudice. In some cases both of these justifications are present; in others, only one or the other.*"

As Hoffmann L.J. pointed out (*ibid.*, 77C-E), in **Cutts v Head** the only basis for excluding reference to a without prejudice offer at the stage of awarding costs was an implied agreement based on general usage and understanding that the party making the offer would not do so--and such an implication could be excluded by a contrary statement as in a **Calderbank** offer--but in **Rush & Tompkins** the rule rested solely on the grounds of public policy, without any element of implied agreement, because the party against whom the privilege was claimed had not been party to the negotiations. The **Muller** case was, itself, one in which the only basis upon which the '*without prejudice*' rule could be invoked was public policy; the defendants were not parties to the negotiations (*ibid.*, 80A). On the facts, public policy did not provide justification for application of the rule; because the relevance of the correspondence lay in the fact that it had taken place, not in the truth of any admission which it might contain.

- 13 The basis and scope of the rule was considered, again, by this Court in **Unilever plc v The Procter & Gamble Co** [2000] F.S.R. 344. The question in that case was whether the claimant could rely, for the purposes of proceedings under s.70 of the Patents Act 1977, on statements made in the course of a meeting in Frankfurt between high-level representatives of the parties. The judge had described the meeting in these terms ([1999] F.S.R. 849, 850; [2000] F.S.R. 344, 347): "*The meeting took place in the context of ongoing discussions with a view to settling a number of issues between the two organisations. There is no dispute that both parties agreed to those discussions being conducted on a without prejudice basis. It is said that in the course of the meeting P&G made a claim of right and threatened Unilever with proceedings for infringement of the patent in suit*"

In this Court Robert Walker L.J. (with whose judgment Simon Brown L.J. and Wilson J. agreed) pointed out, at [2000] F.S.R. 344, 352, that: *"At a meeting of that sort the discussions between the parties' representatives may contain a mixture of admissions and half admissions against a party's interest, more or less confident assertions of a party's case, offers, counter-offers, and statements (which might be characterised as threats, or as thinking aloud) about future plans and possibilities ... a threat of infringement proceedings may be deeply embedded in negotiations for a compromise solution."*

After reviewing the authorities, he went on to say this (*ibid.*, 357-8): *"... this court should, in determining this appeal, give effect to the principles stated in the modern cases, especially **Cutts v Head, Rush & Tompkins** and **Muller**. Whatever difficulties there are in a complete reconciliation of those cases, they make clear that the without prejudice rule is founded partly in public policy and partly in the agreement of the parties. They show that the protection of admissions against interest is the most important practical effect of the rule. But to dissect out identifiable admissions and withhold protection from the rest of without prejudice communications (except for special reason) would not only create huge practical difficulties but would be contrary to the underlying [objective] of giving protection to the parties (in the words of Lord Griffiths in **Rush & Tompkins** at p.1300): 'to speak freely about all issues in the litigation both factual and legal when seeking compromise and, for the purpose of establishing a basis of compromise, admitting certain facts.'*

Parties cannot speak freely at a without prejudice meeting if they must constantly monitor every sentence, with lawyers or patent agents sitting at their shoulders as minders."

He held (*ibid.*, 358-9) that the judge had been right to conclude that it would be an abuse of process for Unilever to be allowed to plead anything that was said at the meeting either as a threat or as a claim of right: *"The circumstances were such that each side was entitled to expect to be able to speak freely, and their agreement to the meeting being arranged evinces that common intention. I would if necessary base my conclusion on the parties' agreement to extend the normal ambit of the rule based on public policy. But I do not think it is necessary to go that far. The Frankfurt meeting was undoubtedly an occasion covered by the normal rule based on public policy, and the pleading of the threat (or claim of right) has not been shown to come within any recognised exception. The expansion of exceptions should not be encouraged when an important ingredient of Lord Woolf's reforms of civil justice is to encourage those who are in dispute to engage in frank discussions before they resort to litigation."*

- 14 In each of the cases to which I have referred-- **Cutts v Head, Rush & Tompkins, Muller v Linsley and Mortimer** and **Unilever v Procter v Gamble**--the question was whether material in respect of which the protection of the "without prejudice" rule was claimed could be deployed in proceedings in these courts. Shortly after the decision of this Court in **Unilever v Procter & Gamble** Lloyd J. had to consider--in **David Instance v Denny Bros Ltd** [2000] F.S.R. 869--whether to make an interim order restraining the use of "without prejudice" material in proceedings in another jurisdiction. He described the circumstances in which the application was made at p.884: *"The present dispute arises between persons who either were parties to the original communications or have obtained the documents from persons who were such parties, and, to the extent that it be relevant, are commercially and corporately connected with such parties. If there was an implied agreement the persons before me are either bound by it as parties or must be taken to be subject to it by reason of the source of the documents in their hands. In my judgment it is strongly arguable, and indeed probable, that the without prejudice communications are indeed governed by an implied agreement that they will not be used in the current or any subsequent litigation between the same or related parties."*

Lloyd J. rejected the submission that the question whether to restrain the use of the *"without prejudice"* material should be left to the court in Cook County, Illinois, before which the foreign proceedings were then pending. He found support for that approach in the decision of this Court in **Bourns Inc v Raychem Corp and anor** [1999] F.S.R. 641, [1999] 3 All E.R. 154. He said this, at [2000] F.S.R. 869, 888-9: *"Having come to the conclusion that what the F-A-F companies wish and intend to do is, for the purposes of the interim application, at least very likely to be found at any eventual trial to be a breach of one or more contractual obligations governed by English law, it seems to me that the right course is indeed to grant an injunction restraining the acts which on that basis would be in breach of contract."*

The Vice-Chancellor's reasoning

15 It appears that counsel for Prudential USA, Mr Silverleaf Q.C., directed his arguments before the Vice-Chancellor principally, if not exclusively, to the 1995 correspondence--see the Vice-Chancellor's observations, at paras [2] and [10] of his judgment: "2. ... *the documents relevant to this application concern negotiations carried on by correspondence in 1995 with regard to the use of the name Prudential in the People's Republic of China. ...*

10. *But, [counsel for Prudential USA] contends, the 1995 correspondence and other similar communications may not be used in the proceedings in Taiwan or New Zealand. He submits that such correspondence came into existence for the purpose of negotiating a settlement of issues arising with regard to the use of the name Prudential in the People's Republic of China and should not be used in proceedings relating to a trade mark dispute in Taiwan or New Zealand."*

It was in the context of the arguments put to him that, in his written judgment, the Vice-Chancellor confined his review of the correspondence to the 1995 letters--which he set out in some detail at paras [12] to [15] of that judgment. But it is clear that he viewed those letters in the light of the earlier correspondence. At paras [16] and [17] he said this:

"16. *Counsel for P-US submitted that this correspondence fell within the 'without prejudice' rule as being part of the overall correspondence which started in 1974 in an attempt to avoid and settle litigation and continued from time to time as occasion demanded with correspondence aimed at resolving similar disputes in a local jurisdiction*

17. *Neither counsel addressed me on the detail of this correspondence. Having considered it for myself in the context of other evidence before me, in particular the correspondence of 1974, I do not consider that it comes within the 'without prejudice' rule at all."*

16 The reasoning which led the Vice-Chancellor to that conclusion appears in the following three paragraphs of his judgment:

"18. *As I have observed none of this correspondence was marked 'without prejudice'. As the passage from the speech of Lord Griffiths in **Rush & Tompkins** I have quoted in paragraph 6 above shows, the absence of such a caption does not prevent the application of the rule if it is clear from surrounding circumstances that the parties were seeking to compromise an existing dispute whether it had given rise to proceedings or not. Nevertheless, given that the rule is dependent to some extent on an implied agreement, it is not without significance that at no stage over a period in excess of 20 years did the senior management or legal advisers of either company see fit to add such a caption.*

19. *The tenor of the 1995 correspondence was not to compromise an existing dispute but to prevent any dispute arising in either China or any of the other countries to which the Vice-Chairman of P-US or the Chairman of P-UK referred. The cross-filings in the People's Republic of China were, as the correspondence shows, precautionary measures of an administrative nature not formal steps for the commencement of litigation.*

20. *It does not appear to me that the considerations of public policy described by Oliver L.J. in **Cutts v Head** and referred to with approval by Lord Griffiths in **Rush & Tompkins** [1989] 1 A.C. 1280, 1299 have any application to these communications. Nothing had been said or done by either party which was likely to give rise to any litigation the outcome of which might be affected by any admission made in the course of these negotiations. And if the protection of the 'without prejudice' rule is extended to communications of this nature the effect will be to withhold from the court evidence which may be material in many diverse contexts without good reason. For the reasons I explain later the impact of the Human Rights Act 1998 indicates the need to apply the 'without prejudice rule' with restraint."*

It was for those reasons that, as he said at para.[21] of his judgment, the Vice-Chancellor rejected the application "on the simple ground that the evidence to which objection has been made is not subject to the 'without prejudice' rule at all".

17 It had been argued by counsel for Prudential UK that in so far as the "*without prejudice*" rule was properly to be regarded as "a rule governing the admissibility of evidence"--as Lord Griffiths had described it in **Rush & Tompkins**--its applicability in foreign proceedings ought to be left to determination by the foreign court. The admissibility of evidence was a matter of procedure. Under English conflict of laws rules matters of procedure were governed by the *lex fori*--see paras [7-002] and

[7-016] in Dicey & Morris, *The Conflict of Laws* (13th ed., 2000). It was submitted that, in the absence of any claim by Prudential USA in contract or confidence, the relief sought in this application was an unwarranted interference in the jurisdiction of those foreign courts. The Vice-Chancellor recorded that, in his oral submissions, counsel for Prudential USA had sought to meet that argument by an assertion that the cause of action lay in contract (but not in confidence). The response, on behalf of Prudential UK, was that a claim to restrain the use of documents based in contract was outside the scope of the proceedings in which the application had been made. If the cause of action relied on for substantive relief was based on a contract, that contract had been neither pleaded nor proved.

- 18 The Vice-Chancellor accepted the force of the submissions advanced on behalf of Prudential UK on that point. At para.[25] of his judgment he said this: *"... It appears to me that the claim for P-US must be put on the basis of a contract governed by English law in order to entitle the court in England to intervene in relation to evidence tendered to a foreign court in respect of a matter within its exclusive jurisdiction. If it is so advanced then it is a substantive claim not an incidental application in the current action. This is not a purely procedural objection. The claim based on contract was not advanced until the hearing before me. At the very least it should have been the subject matter of some originating process followed if so advised by an application for judgment under CPR Rule 24.2. In that event it would have been properly alleged, particularised and proved."*
- 19 The Vice-Chancellor went on to consider two further points raised on behalf of Prudential UK in opposition to the application which was before him. Those points were: (i) the need, in the light of Art.10 (Freedom of expression) of the 1950 Convention for the Protection of Human Rights and Fundamental Freedoms and s.12(4) of the Human Rights Act 1998, to apply the "without prejudice" rule with restraint (and only in cases in which the public interest underlying the rule is plainly engaged); and (ii) the provisions of CPR 31.22(1)(a), which permit use of a document disclosed for the purpose of proceedings where that document has been read to or by the court, or referred to, at a hearing held in public. In the present case the correspondence had been before Laddie J. at the earlier hearing to which I have referred.

This appeal

- 20 Faced with the obvious difficulties which arise, on the one hand, if application of the "without prejudice" rule is said to be based, in the present case, on public policy alone—in that it is difficult to see why a rule of evidence based on public policy should be given extra-territorial effect—and, on the other hand, if application of the rule is said to be based, in the present case, on an implied contract between the parties—in that it is difficult to see how an application based on a cause of action in contract which has not been advanced in support of the substantive claim can be made in the present proceedings—the appellant has sought to argue that, on a true understanding, there is but a single rule. It is said that "implied contract is the mechanism by which the court gives effect to the underlying public policy that such material should be protected from deployment in court".
- 21 I am not persuaded that the difficulties which face the appellant can be overcome by eliding the distinct bases upon which the "without prejudice" rule can be justified. As Oliver L.J. pointed out in **Cutts v Head**, there are circumstances in which the rule operates to defeat, not to promote, the underlying policy of encouraging parties to settle their disputes without resort to litigation. In those circumstances the rule has to be justified, if at all, on the basis of an agreement that negotiations will be conducted on terms that, if the negotiations fail, they will not be relied upon in subsequent litigation. In those cases the court does not have recourse to an implied contract as the mechanism by which effect is given to an underlying public policy; it recognises that effect must be given to a contract (which, if not expressed, may fall to be implied from the circumstances in which negotiations took place) notwithstanding that, by giving effect to that contract, the public interest in encouraging parties to accept realistic offers of settlement is frustrated. In such a case, as Hoffmann L.J. observed in **Muller v Linsley & Mortimer**, *"the only basis for excluding reference to a without prejudice offer on costs was an implied agreement based on general usage and understanding that the party making the offer would not do so"*. And there are cases where the rule can only be justified on the basis of public policy; that is to say, where it cannot be justified on the basis of implied contract because the person against whom it is invoked was not party or privy to the negotiations—see Hoffmann L.J.'s analysis, in the **Muller** case, of the facts in **Rush & Tompkins**.

- 22 For my part I would accept that, in cases where a restraint on the use of "without prejudice" material can be justified on the basis of an implied contract-- *a fortiori*, where that contract is governed by English law--and whether or not it could also be justified, independently of contract, on the basis of public policy, these courts can give extra-territorial effect to the restraint by an order enforcing the contract. **Instance v Denny Brothers** is an example of such a case--see, in particular, the observations of Lloyd J. at [2000] F.S.R. 869, 884, 888-9. What is required in such a case is a finding--or, on an application for an interim order, a real prospect that there will be a finding at trial--that the parties agreed, or must be taken to have agreed, that communications in the course of negotiation would not be used in the litigation then current or any subsequent litigation; or, more precisely, that they agreed, or must be taken to have agreed, to restrict the use of the communications in terms apt to cover the particular litigation in relation to which the restraint is sought. I would, myself, think it necessary to be very cautious before making an order in terms as wide as those sought by paragraph 4 of the draft order attached to the application in the present case.
- 23 In my view the position is different in those cases in which the only justification for restraining the use of "*without prejudice*" material is public policy; that is to say, in cases of which **Rush & Tompkins** and **Muller v Linsley and Mortimer** are examples. In those cases there is no contractual basis upon which to order an extra-territorial restraint. The question in those cases is whether the English court, by ordering a person not to make use of "*without prejudice*" material in foreign proceedings, should seek to impose on the conduct of the foreign proceedings a restraint which is justified only by its own perception of what public policy requires. In my view it is plain that that question must receive the answer "No". In that context it is important to keep in mind that the rule in England--in so far as it is based on public policy--has evolved in response to the need to balance two different public interests, "namely the public interest in promoting settlements and the public interest in full discovery between parties to litigation"--see the observation of Lord Griffiths in **Rush & Tompkins** ([1989] A.C. 1280, 1300A-B). The latter interest is a reflection of the principle that trials should be conducted on the basis of a full understanding, by both parties and the court, of the facts relevant to the issues in dispute. The "*without prejudice*" rule has to be seen as encroaching upon that principle. The justification for such encroachment, in the eyes of the English courts, has been the greater public interest in promoting settlements. But it would be insular not to recognise that courts in other jurisdictions might think--or might be required by legislation to accept--that a different balance should be struck; and arrogant to seek to impose on the conduct of litigation in other jurisdictions a rule which is based on our own perception of where the greater public interest lies.
- 24 It follows that I would not interfere with the order made by the Vice-Chancellor unless satisfied that he was wrong to take the view that this was not a case in which Prudential USA could rely upon an implied contract to support the obligations which it sought to enforce. I am not satisfied that he was wrong to take that view. There is, I think, much force in his observation that a claim to restrain use of the "*without prejudice*" material could not properly be advanced on the basis of contract by way of an incidental application in the present proceedings; and that that was a matter of substance and not merely a matter of procedure. The difficulty in which the course which Prudential USA chose to adopt in pursuing its claim to restrain use of the "without prejudice" material placed the respondent, Prudential UK, and the judge at the hearing of the application lay in the failure to identify, with any degree of specificity, the material from which it is said a contract is to be implied, the time at which that contract is said to have arisen, or the scope of the obligations which are said to arise from it. And, notwithstanding the concern expressed by the Vice-Chancellor in that context, the appellant was content to pursue this appeal without addressing the need to meet that difficulty.
- 25 It is said, in the skeleton argument filed on behalf of the appellant, that an implied contract "... is one imposed by law on the parties when they have not themselves consciously addressed the issues it governs"; that "*The implied contract is the law's objective assessment of what they are deemed to have intended, as derived from the surrounding circumstances*"; and that "*The true question is whether the circumstances in which the letters were written objectively require such an agreement to be implied.*" None of those propositions are in doubt. But they do not meet the difficulty to which I have just referred. The appellant has been content to advance its claim on the basis that it is enough to put the whole of the correspondence from 1974 to 1996 in evidence before the court; and to expect the court (and, it seems the respondent) to deduce from

reading through that correspondence when it was that the parties must be taken to have reached an agreement as to the use in litigation of the letters that had passed, or would in the future pass, between them and what were the terms of that agreement.

- 26 In my view that approach seeks to impose an unacceptable burden on the court and upon the respondent. I find it impossible to say that, when the chairman and chief executive officer of Prudential USA and the chief general manager of Prudential UK met in early March 1974 to exchange views "on a wide range of subjects" and "with a view to removing the prospect of any future dispute between us" as to "the areas in which each of our companies would be free to use the name Prudential", they must be taken to have done so on the basis that neither company would be entitled to refer to those discussions in any litigation anywhere in the world at any time in the future. Had that been their intention I would have expected them to say so--at the meeting and in the careful and detailed letters which they wrote immediately following that meeting and in the subsequent months. Further, I would have expected the in-house lawyers to say so, at the earliest opportunity. And, if that was not the basis upon which discussions took place in early March 1974, I find it impossible to identify some subsequent point at which the position changed. In my view the Vice-Chancellor was plainly correct to treat as a matter of significance, in the context of a supposed agreement, the fact that "at no stage over a period in excess of 20 years did the senior management or legal advisers of either company see fit to add [the] caption ['without prejudice']".
- 27 Further, it is not, I think, the appellant's case that the terms of the agreement which the court is to imply required that neither company would be entitled to refer to the discussions in any litigation anywhere in the world at any time in the future. It is implicit in the terms of the draft order sought by the application--and is made express in the skeleton argument filed in this Court on behalf of the appellant (see paragraph 1.11) -- that the contractual restraint on the use of "*without prejudice*" material is said to be subject to "*the established exceptions*". Those are the exceptions identified by Robert Walker L.J. in **Unilever v Procter & Gamble** ([2000] F.S.R. 344, 353-4). But why it should be an implied term of an agreement made in 1974 (or at some unidentified time thereafter) that the parties be under a restraint from using documents in 2003 (or thereafter), in proceedings in Taiwan (or anywhere else in the world), which is limited by exceptions recognised in England from time to time has not been explained. It is no answer to assert that the agreement was subject to English law; that begs the question whether there was an agreement at all as to the future use of the correspondence. And, for my part, I have not been able to find a rational basis for such an implied term. I can see no reason, for example, why--if the parties are to be taken to have intended to subject themselves to mutual restraint in relation to the use of documents in future litigation anywhere in the world--they should not be taken to have agreed either an unqualified restraint, or a restraint which was linked to the "without prejudice" rule (if any) in the court in which the particular litigation was proceeding.

Conclusion

- 28 I would dismiss this appeal.
- 29 I should add that, notwithstanding the suggestion by the Vice-Chancellor, when giving permission to appeal, that this Court might think it appropriate to consider the "*without prejudice*" rule in the light of the Human Rights Act 1998, I am not persuaded that this is an appropriate appeal in which to do so. To my mind the appeal does not turn on any issue of public policy; it turns on the question whether or not there is material from which an agreement as to the use of correspondence passing between the parties over a period in excess of twenty years should be implied. I do not find anything in the Convention, or in the 1998 Act, which assists in the determination of that question.

JONATHAN PARKER L.J.:

- 30 I agree.

SCHIEMANN L.J.:

- 31 I also agree.

For the claimant: Geoffrey Hobbs Q.C. (instructed by Lovells).

For the defendant: Michael Silverleaf Q.C. (instructed by Linklaters, solicitors).