PattisonHardman
THE LEGAL COSTING COMPANY

Hegarty & Elmgreen
Solicitors
DX 157 SYDNEY

Your ref: John Elmgreen
Our ref: SW: K11027
7 December 2010

By email: elmgreen@hegartyelmgreen.com.au

Dear Sir,

RE: AMC v HAMILTON – FEDERAL COURT BILL OF COSTS

We refer to your email of 23.11.10 enclosing the following documents:

a. Copy of judgment re: costs dated 14 December 2010. The relevant order is 2.3 which orders AMC to pay the costs of the issue of the damages claimed by AMC as applicant, on a party/party basis.

b. Bill of Costs dated 29 July 2009 (205pp).

c. Certificate of taxation of 11 November 2010.

Your email also requested an advice to assist your client (Dr Keung) 'to decide whether or not to proceed with a full objection to the Bill of Costs served by Hamilton Pharmaceutical Pty Limited, given (i) the amount that has already been eliminated from the claim, and (ii) the costs of running the objections.'

We set our advice below by way of 'general objections' we consider appropriate to the bill of costs and note that in arriving at this advice we have taken into account the documents listed above, the client's instructions and your comments noted below:

1. The claim for costs of $587,115.60 was made up of costs at a basic level of $232,166.50 plus a claim for a 35% uplift for "general care and conduct" (i.e. $81,258.28, item #1457), plus the costs of the bill of costs preparation etc, plus disbursements (paid out) of $267,114.83 – mainly barrister's fees. The certificate of 11 Nov 2010 is for $356,322.60 which is about 61% of what was claimed – i.e. 39% reduction.

2. Although the bill of costs in numerous cases (some 1475 items) allocates only part of the costs to "damages", the client feels that many of these items related purely to liability issues and not damages at all.

3. Further, the allocations to damages (typically "half" or "20%") are in many cases considered by the client to be unreasonably high. Damages issues usually occupy only a small part of any trial such as this.

4. In particular, the client says that attendances by counsel were usually not related at all to damages issues – but again, he knows that he has to deal with each item individually.

5. The client also points out that the costs relating to breach of confidence issues should not be included: he is entitled to costs for that issue. Examples that plainly relate to breach of confidence are items #1453, 1454, 1456.

6. The client states that the report of Mr Yeung related solely to liability and not to damages. This was a report about the general subject of parallel importation and marketing in Hong Kong and China. Some entries for this are at page 98 of the bill of costs, see item 1195 for the cost of the report ($43,976.18) plus some associated costs (items 1190-93 at least).

7. The trial apparently occupied 31 hearing days of which the client estimates that about one hearing day was spent on damages (forensic accountants) and one day on the breach of confidence issue. However, it would be necessary of course for the client to read the transcript of the proceedings and be precise about what time was spent on what issues, day by day.

The relevant extracts from the judgment were helpfully set out as follows with the costs order paragraph highlighted:

> *30. Hamilton pleaded in its defence that the marks and the Chinese language artworks were held by AMC on constructive trust for it. In its cross-claim Hamilton claimed the trade marks (via the constructive trust) but not the artworks. It abandoned the claim to the trade marks at the beginning of final submissions. I simply note, a significant component of the hearing was devoted to the Hamilton defences and claims I have noted above. This is a matter to which I will return.*
>
> *31. Given that AMC secured no relief on any of its claims other than by way of awards of nominal damages, it must on any view be said that the orders to be made will necessarily be less favourable to AMC than either of the offers made. This said, it equally has to be acknowledged that AMC was successful and Hamilton not so in relation to many of the disputed issues which occupied significant time in the protracted hearing of the matter.*
>
> *38. Save in relation to the breach of confidence issue and one specific issue mentioned below, the justice of the matter is, rather, that not only that no indemnity costs order should be made on AMC's claim in Hamilton's favour but also no costs order should be made on the claim or the cross-claim.*

Considering and balancing the successes and failures on the multitude of issues raised by the claim, the cross-claim and the respective defences - and they were many and often complex - and having regard to their relative significance, I consider this pragmatic result to be the fair and appropriate outcome to what has been an acrimonious litigation in which agreement on almost any matter - and not the least on an offer of compromise of only a part of it - could not reasonably be expected.

39. The one specific issue I would except from the above relates to the issue of the damages claimed by AMC. Not only was AMC unsuccessful in its various claims, the quantum of relief sought for its principal claims can properly be considered to be improbable at best. Hamilton is entitled to be paid its costs on that issue in AMC's proceeding on a party and party basis.

The Principles I Have Applied

8. In determining the likely costs to be recoverable on an indemnity or ordinary party / party basis I have considered the tests applicable in a Federal Court assessment of costs.

9. In the Federal Court there is a significant difference in the recovery range for a costs applicant who is awarded indemnity costs. The primary reason for this is that if a party is awarded an indemnity costs order in Federal Court proceedings their costs recovery proceeds in accordance with *Patrick Stevedores No 2 Pty Ltd v Proceeds of Sale of MV "Skulptor Honenkov BC 200007203"* [2000] FA 1710 rather than application of Schedule 2 of the Federal Court Rules. The effect of this is that the recipient of an indemnity costs order will recover their costs in accordance with the hourly rates and disbursements charged on a solicitor client basis rather than on Schedule 2. For example, HH Tamberlin J said at paragraph 19 of this decision when explaining the difference between party / party and indemnity costs in the Federal Court that:

"....Counsel for Opal submitted that any taxation of the solicitor's award of indemnity costs should be undertaken on the basis of the costs prescribed by O 62 r 12 of the Federal Court Rules and Schedule 2 thereof. I do not accept this submission for two reasons. Firstly, that Schedule only applies to party-party costs and not to costs on an indemnity or solicitor-client basis: see Colgate-Palmolive Company v Cussons Pty Limited (1993) 46 FCR 225 at 226 and Re Wilcox; Ex parte Venture Industries Pty Limited (1996) 141 ALR 727 at 734. Secondly the Schedule in terms only applies "except as otherwise ordered" and where an order is made for costs to be taxed on an indemnity basis there is, in my view, an order to the contrary. The purpose of an order for indemnity costs is to compensate a party for costs reasonably incurred in relation

to or in the course of litigation. There is therefore an important difference between a bill of costs made on an indemnity basis and one which is made on a party-party basis. In the latter case, the task is a more mechanical one in the sense that amounts are specified [in the scale]. In the former case the emphasis is on the unreasonableness of the amount and the appropriateness of carrying out the work in respect of which the payment is claimed." [Emphasis Added]

10. On a party / party basis, by contrast, the test is 'necessary or proper' and a sample of current attendance rates under Schedule 2 of the Federal Court Rules, for the scale applicable from 1.1.09 (which covers the work in the latter section of the bill provided) are:

Item	Description	Amount
31	An attendance that requires the attendance of a solicitor or managing clerk and involves the exercise of skill or legal knowledge (including an attendance to inspect or negotiate) - for each quarter hour:	
	* solicitor	72 ($288 per hour)
	* managing clerk	15 ($60 per hour)
35	A necessary conference or consultation with counsel:	
	* if half an hour or less	110
	* if over half an hour -- for each hour or part of an hour	160
36	In court or chambers or before the Registrar for hearing without counsel:	
	* for each hour or part of an hour of the hearing	320
	* for each hour or part of an hour when likely to be heard, but not heard	320
	* not to exceed per day	1 435

11. When considering reductions to be applied on a party / party costs order I have also considered the general and specific principles applied to professional attendance claims. For instance, Rule 15 of the Federal Court Rules provides that:

> *"On every taxation the taxing officer shall allow all such costs charges and expenses as appear to him to have been necessary or proper for the attainment of justice or for maintaining or defending the rights of a party, but, except as against the party who incurred them, costs shall not be allowed which appear to the taxing officer to have been incurred or increased:*
>
> *(a) through over caution, negligence or misconduct;*
>
> *(b) by payment of special fees to counsel or special charges or expenses to witnesses or other persons; or*
>
> *(c) by other unusual expenses."*

12. In my experience, however, a Taxing Officer will go further than this, and pay significant regard to the full application of "necessary" or proper" including the distinction between each word and the differing meaning of "necessary" compared with "proper" in the context of the bill narratives and above examples. To this end, regard is also given to the scope of the test as defined in *W & A Gilbey Ltd v Continental Liqueurs Pty Ltd* (1963) 81 WN (Pt 1) 1 at page 9 that states:

> *"The scope of the words "necessary or proper" has been extended to allow for any steps reasonably taken or performed without extravagance for attaining justice or maintaining or defending the litigant's rights in conformity with the then situation of the case and not in conflict with the statutes and rules, the practice of the Court and the usages of the legal profession appertaining to such a case". [Emphasis added]*

13. In application of Order 61 rule 15 the Federal Court also opined in *Donohoe v Britz* (No 2) (1904) 1 CLR 662 as applied in *Nine Films & Television Pty Limited v Ninox Television Ltd* [2006] FCA 1046, HH Barton said that "...when considering the amount of costs to be awarded as between party and party, the luxuries of litigation must be paid for by those who indulge in them and only the necessary costs are to be paid by the losing side". *[Emphasis added]*

14. Even where attendances are held to fall within the scope of the above tests, a taxing officer must then, for ordinary party / party costs orders, apply the rates set out at Schedule 2 as set out in Table 1.

15. In addition, I have also taken into account that on a party / party basis the Second and Third Respondents would be entitled to a General Care and Conduct allowance in accordance with Item 41, Schedule Two, Federal Court Rules. In accordance with item 41, a General Care and Conduct allowance is made after a taxation officer assesses the following factors:

Table 2 – General Care and Conduct Allowance

(a)	The complexity of the matter and the difficulty and novelty of questions raised;
(b)	The importance of the matter to the party and the amount involved;
(c)	The skill, labour, specialised knowledge and responsibility involved in the matter on the part of the solicitor;
(d)	The number and importance of the documents prepared or perused, without regard to length;
(e)	The time taken by the solicitor;
(f)	Research and consideration of questions of law and fact.

16. In relation to these factors it is clear from the materials supplied to me that the importance of the claim to the parties and level of acrimony was significant and there was a high level of skill and complexity was involved. However, the National Guide to Discretionary items in the Federal Court indicates the typical allowance for General Care and Conduct is 0-20%. Our typical recovery for General Care and Conduct has historically been in the range of 18-20%. However, recently allowances in the range of 25% have been awarded in the Sydney Registry for large, complex matters of this nature. We therefore consider an allowance of 20% (as opposed to the 35% claimed) would be more appropriate in this matter.

17. Please note, the percentage for GCC is only ever calculated on the amount allowed for professional fees at the completion of the taxation process.

18. Please note that the test applied to counsel fees and disbursements is pursuant to item 42, 'fair and reasonable' but a number of counsel attendances are also interrelated with solicitor attendances (e.g. conferences and court time). Pursuant to Order 62, Rule 6 a Taxing Officer may also have regard to the National Guide to Counsel Fees.

19. My examination of the Bill of Costs indicates also that a majority of the attendances fall into the following categories:
    a) Telephone attendances;
    b) Perusal and scanning claims;

c) Review/Inspection/analysis of documentation;
d) Drafting (and Preparation) of court documents, summaries / schedules;
e) Letters;
f) Court attendances;
g) Preparation attendances;
h) Conferences;
i) Research;
j) Interoffice conferences; and
k) File administration (eg payment of counsel fees) etc

Opinion re Reasonableness of the Estimate

Based on our examination of the Bill and taking into account the principles applicable to an assessment of party / party costs in circumstances where there has only been partial success, we consider that there are strong grounds for arguing that the estimate is inappropriate and the Bill should be taxed lower both on the basis of the principles outlined above but also based on the cost applicant's status as a Respondent/Cross-Claimant.

For instance, as a Respondent/Cross-Claimant, Hamilton Pharmaceutical Pty Limited is required to apportion between costs it incurred as a 'defendant' in contrast to its claim against Dr Keung and the partial costs order. Further, it ought to distinguish between the costs it incurred as against AMC and Dr Keung.

For instance, the starting point governing the principles of taxation of costs of a claim/Application and Cross Claim is that: 'the party receiving the costs of the claim should recover the general costs and whatever was reasonably incurred in bringing and maintain or defending the action, as the case may be, considered as if there had been no counterclaim, and... the party receiving the costs of the counterclaim should recover [only] further or increased costs reasonably incurred in bringing and maintaining or defending the counterclaim" [*Smith v Madden* (1946) 73 CLR 129 at 133-134 et al].

The Bill of Costs provided to our office does not – as a starting point - distinguish between attendances incurred in defence of the original claim and attendances relating to its cross-claim against Dr Keung. Secondly, beyond this, the descriptions in the items also fail to distinguish between costs relating to liability and damages. Third, the items fail to distinguish between attendances relating to Dr Keung and AMC. As a starting point – if a 'rule of thumb' approach was adopted it would appear sensible to assume only 1/3 of the attendances related to Dr Keung and then a further reduction should be made reducing the 1/3 of the global attendances to apportion between liability/damages attendances. Even if the latter approach was adopted and the liability v damages attendances were apportioned on a 50:50 basis it would appear that – at best – perhaps 1/6th of the costs incurred by the Hamilton

Pharmaceutical Pty Limited in the proceedings related to its damages claim against Dr Keung.

We note that we have not based this opinion on an examination of the file or transcripts of the hearing but the bill of costs provided, the comments provided by our instructing solicitor and, most significantly, the instructions of Dr Keung. If specific and detailed instructions are required for the taxation we will need the full file (including all court transcripts) and all documents held by Dr Keung and the solicitor/s who conducted the matter. However, the extracts of judgment noted at the outset support Dr Keung's proposition that the costs incurred by the Cross-Claimant against him for damages were extremely limited including comments by His Honour that:

a) *a significant component [suggesting much greater than 50%] of the hearing was devoted to the Hamilton defences and claims;*
b) *AMC was successful and Hamilton not so in relation to many of the disputed issues which occupied significant time in the protracted hearing of the matter (and this was entirely unrelated to Dr Keung);*
c) *No indemnity costs order should be made on AMC's claim in Hamilton's favour but also no costs order should be made on the claim or the cross-claim [thus suggesting a harsher than normal approach to apportionment on the cross-claim is appropriate]; and*
d) *The only [extremely narrow] issue for which there is a costs order in Hamilton's favour is on the damages issue against Dr Keung.*

Based on the reasons above, the reasons for judgment and our examination of the Bill of Costs, we consider that there are significant general categories of objection to the Bill of Costs as filed. Indeed, we consider that the Bill of Costs does not show any regard for the limited scope of the costs order nor set out sufficient detail to assess whether there has been an appropriate approach to apportionment. We are unable to isolate either in the professional attendances, counsel or witness invoices any narrative or explanation attempting to justify the simplistic and unreasonable 50:50 approach to apportionment. We consider the categories of objection are:

1. Failure to satisfy the cost applicant's onus of proof on the majority of attendances (including providing sufficient particulars to satisfy the party / party test per se);
2. Failure to appropriately apportion costs in accordance with the extremely limited costs order;
3. Failure to appropriately apply Federal Court Rules, Schedule 2 ("Scale");
4. Unreasonable claiming of inter office conferences (regularly claimed between solicitor and clerk);
5. Unreasonable claiming of dual and duplicatory attendances of two practitioners on counsel, in witness conferences and on hearing days;
6. Unreasonable quantum claimed overall and inappropriate apportionment of Senior Counsel;

7. Unreasonable quantum claimed overall and inappropriate apportionment of Counsel fees;
8. Excessive and Unreasonable claims for Trial including failure to apportion trial days in accordance with costs order and the reasons for judgment;
9. No application of Federal Court of Australia National Guide to Discretionary Items generally;
10. No application of Federal Court of Australia National Guide to Discretionary Items in relation to General Care and Conduct and excessive Item 41 Claim;
11. Regular and consistent application of full perusal rate (item17) and claim for $18+ where folios not identified and if 1 folio claim should be reduced to $4 subject to scale period;
12. Unreasonable quantum and inappropriate apportionment of expert witness fees;
13. Generalised and unreasonable research claims;
14. GST not excluded in accordance with Dr Keung's foreign status and/or GSTR 2001/4 ;
15. Unskilled attendances claimed at skilled rate;
16. Unparticularised administrative attendances;
17. Unparticularised correspondence claims (including as to content, purpose and length);
18. Unreasonable claiming of solicitor client attendances.

In short, we consider that Dr Keung has significant and extensive grounds for objecting to the estimate provided to this bill both based on its general and unreasonable approach to apportionment and to many individual attendances improperly claimed and insufficiently particularised in the bill of costs. We consider that objections can reasonably be drawn to approximately two-thirds of the Bill of Costs and therefore the Estimate is unreasonably high in favour of the costs applicant.

Costs, Risks of Proceeding to Taxation and Lengthy Process

The main concern from a costs viewpoint for Dr Keung is the risk of incurring and becoming liable for the costs of Taxation. By comparison we are currently involved in Federal Court taxation where a similar amount is in dispute where the taxation is expected to take longer than three weeks. At $250 per hour x 3 weeks of hearing time (say 100 hours) plus approximately 80 hours preparation time, the cost of such taxation is likely to be in the vicinity of $45,000 excl GST in costs consultancy fees. This does not include costs of a solicitor (eg Hegarty Elmgreen) or procedural costs (for example, preparation of objections, settlement conferences, directions hearings, etc). These costs should be borne in mind for the purpose of negotiations.

In addition, pursuant to Federal Court Rules Order 62r46(A)-(C) if Dr Keung objects to the estimate he must achieve an outcome at least 15% better than the estimate to ensure he is not required to pay the costs of Hamilton Pharmaceutical Pty Limited Ltd. Further, even if Dr Keung is successful in achieving an outcome that results in

the bill of costs being taxed and reduced to greater than 15% below the estimate the Federal Court Rules DO NOT automatically provide that a party objecting to an estimate which achieves a better than 15% change in the estimate is, as of right, entitled to the costs of the taxation. The discretion of the Registrar to order costs to either party remains, although the presumption then favours Dr Keung obtaining a successful costs order.

In addition, at the completion of taxation, if either party feels aggrieved by the decision of the Taxation Officer there are rights of reconsideration and review subject to the following rules and principles:

a) A party who objects to a decision of a taxing officer may apply by motion within 14 days after the date of the decision for reconsideration. A statement of objections must be filed with the notice of motion specifying the items to which the applicant objects in the decision of the taxing officer and stating briefly, but specifically, the nature and grounds of each objection. On the same day as filing the notice of motion and statement of objections the applicant must serve the notice and statement on each party interested: O 62 r 42.
b) No review will be allowed on a point not raised in the objections: *Mentors Ltd v Evans* [1912] 3 KB 174; *Re Nation* (1887) 57 LT 648. However the court may refer a bill back to the taxing officer for further taxation of items in respect of which no objection had been lodged: see *Bates v Gordon Hotels Ltd* [1913] 1 KB 631.
c) It appears that failure to serve the notice of motion and statement on the day of filing will not necessarily affect the validity of the notice and is a procedural issue only. In *Jet Corp of Australia Pty Ltd v Petres Pty Ltd* (1985) 10 FCR 289; 64 ALR 265; (1986) ATPR 40–658 Northrop J said: "Once an application under r 42 is validly before him [the taxing officer], it is his duty to see that the parties interested in the taxation are treated fairly. To this end, he must be satisfied that adequate notice has been given to those adversely affected by the application to prepare any answer thereto. If there has not been sufficient time for this to be done, he should adjourn the hearing of the application".
d) The taxing officer gives his certificate in accordance with his decision on reconsideration and, if requested to within 14 days from the date of such decision, he must furnish reasons for that decision: O 62 r 43.
e) Every taxation of costs and every decision of a taxing officer is able to be reviewed by a judge: O 62 r 11.
f) Where a party has requested the taxing officer to state his reasons for his decision on reconsideration the court will, on motion by any party interested, review the decision of the taxing officer on reconsideration: O 62 r 44(1). The notice of motion must be filed within 28 days after the certificate is given although the court or the taxing officer may extend the time: O 62 r 44(3).

g) On the review no further evidence can be received nor can grounds not previously objected to be raised before the taxing officer unless the court otherwise orders: O 62 r 44(4).
h) The court can exercise all the powers and discretions of the taxing officer, order the alteration of the certificate, remit any item to a taxing officer for taxation and make any other orders as the case may require: O 62 r 44(5).

Thus the Taxation process can last in the vicinity of 2 or more years before a party exhausts all of its rights.

Conclusion

We look forward to discussing these matters further should Dr Keung be successful in setting aside the Certificate of Taxation and seek our assistance in preparing specific objections or attending a settlement conference. We expect that if the Certificate of taxation is set aside, a timetable will then be set for a Settlement Conference, filing of detailed and specific objections, filing of responses and ultimately a lengthy taxation hearing.

We thank you for your instructions and enclose our Tax Invoice, addressed to Dr Keung and excluding GST as requested. Please note that should Dr Keung brief us to prepare specific objections to the Bill of costs this advice will form the basis of the general objections.

Yours faithfully,

PATTISON HARDMAN PTY.LTD.

We wish to advise that our office will close at midday on Thursday 23 December 2010 and will re-open at 9.00am on Monday 17 January 2011. We will be available for new instructions and will be monitoring the telephones and emails during the holiday period.