NON-CONTRACTUAL ARRANGEMENTS FOR THE MODIFICATION OF PERFORMANCE: FORBEARANCE, WAIVER AND EQUITABLE ESTOPPEL

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Although a modification of performance by way of a mere forbearance does not vary the terms of the contract, the courts have developed legal and equitable principles which give non-promissory and non-contractual forbearance arrangements a limited effect. Professor Lucke is concerned that these principles which are fair and appropriate should not be displaced by the recent extension of the doctrine of promissory estoppel which is only designed for, and suited to, arrangements which are genuinely promissory.

The common law is justly credited with being a strongly fact-oriented legal system. In keeping with this tradition judges tend to approach abstractions and generalisations with caution. Nevertheless, it is plain that the success of any legal system depends upon its rules and principles being pitched at a satisfactory level of generality, thus ensuring that concrete cases are arranged under categories which will facilitate the courts' ancient task of treating like cases alike. The progress of our judge-made law is destined forever to seek its way between the devil of insufficient generalisation and the deep blue sea of indiscriminate abstraction.

In recent cases the High Court and other Australian courts have embraced the notion that promissory estoppel may found not only a defence, but also a cause of action, that it may be used not only as a shield but also as a sword.[1]

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1. *Waltons Stores (Interstate) Ltd v Maher* (1988) 164 CLR 387; *Silovi Pty Ltd v Barbaro* (1988) 13 NSWLR 466; *Austotel Pty Ltd v Franklins Selfserve Pty Ltd* (1989) 16 NSWLR 582. For use of the doctrine as a defence, see *Je Maintiendrai Pty Ltd v Quaglia* (1980) 26 SASR 101; *Reed v Sheehan* (1982) 56 FLR 206; *Legione v Hateley* (1983) 152 CLR 406. For academic contributions, see P Jackson, "Estoppel as a sword" (1965) 81 LQR 84,223; K E Lindgren and K G Nicholson, "Promissory estoppel in Australia" (1984) 58 ALJ 249; K C T Sutton, "Promises and consideration" in P D Finn (ed) *Essays on contract*

A quest is now in progress in Australia to substitute clarity for the confusion which has hitherto surrounded terms such as waiver, forbearance, and the various estoppels which have developed in the common law and in equity. Judicial[2] and academic[3] speculation has been focussed strongly upon the meaning and interrelationship of the various concepts which have arisen in this area of the law of contract and upon attempts to embrace the precedents with unifying formulations of principle.[4] That is certainly one way, and perhaps the most important way, of making progress in the development of the common law. However, with the extension in *Waltons Stores (Interstate) Ltd v Maher* ("*Waltons Stores v Maher*") of the so-called doctrine of promissory estoppel beyond the confines of pre-existing contractual relationships, one must remember that this doctrine is now seeking to span a range of very diverse cases. *Waltons Stores v Maher* and *Thomas Hughes v The Directors etc., of the Metropolitan Railway Company* ("*Hughes*"),[5] for example, involve fact patterns which have very little in common. Whenever this occurs, the danger arises that principles will become overstretched and will tend to operate indiscriminately and hence unjustly.

It is then time to supplement the traditional approach to legal progress with a strongly fact-oriented method, which involves two steps. First, one seeks to identify fact patterns or groups of cases with so many common *factual* characteristics that they can be said to represent a typical commercial or contractual arrangement or situation which is inherently likely to call for a coherent and uniform legal response. Secondly, one seeks to examine comprehensively and systematically not just one but all facets of that legal response, under whatever label they may have appeared. In the present context this has included labels such as accord and satisfaction, substantial performance, breach, readiness and willingness to perform, waiver, forbearance, interpretation of terms and estoppel.

It can do no harm to remember throughout this inquiry the, perhaps no longer fashionable, message of the American realists: what matters is not what judges say but what they do. This injunction makes it easier to perceive when judges say the wrong thing. Academics, forever enthusiastic critics of

(Sydney: Law Book Co, 1987) 35, 55-69; C N H Bagot, "Equitable estoppel and contractual obligations in the light of Waltons v Maher" (1988) 62 ALJ 926; K E Lindgren, "Estoppel in contract" (1989) 12 UNSWLJ 153; B Mescher, "Promise enforcement by common law or equity?" (1990) 64 ALJ 536.

2. *The Commonwealth v Verwayen* (1990) 64 ALJR 540.
3. See the articles referred to in n 1.
4. See, for example, *Silovi* (1988) 13 NSWLR 466, 472, *per* Priestly JA.
5. (1877) 2 App Cas 439.

the judicial process, need not be reminded that judges sometimes not only say but also do the wrong thing, a fact which complicates an investigation such as this one.

I. FORBEARANCE ARRANGEMENTS: FACTUAL CHARACTERISTICS

Two Australian cases may serve to illustrate a problem which very frequently arises between the parties to an existing contract. In *Embrey v Earl*,[6] a baker undertook to accept monthly deliveries of flour which were larger than his storage facilities allowed. He was forced to seek an adjustment and the flour merchant reduced the monthly quantities accordingly. In *Tallerman & Co Pty Ltd v Nathan's Merchandise (Vic) Pty Ltd*[7] ("*Tallerman*") a retailer in rifle ammunition ordered two million Hungarian bullets from a wholesaler for "earliest" delivery, but then found that the effect of myxomatosis upon the rabbit population caused a slump in the demand for bullets, particularly imported ones. He had to seek adjustments to the delivery dates and the wholesaler decided to accommodate him. The difference between these situations is that, in the first, the purchaser was the victim of his own miscalculation whilst in the second he was the victim of an unexpected change of circumstances. This distinction calls to mind the fact patterns which underlie common mistake cases and cases of frustration: it is probably of no great significance for legal purposes. As long as the difficulty that has come about does not reach "frustrating" proportions, the embarrassed parties in both situations are regarded by the law as fully bound by all the terms of the contract and are thus legally in exactly the same position. In the first case, the purchaser should probably feel more apologetic when he goes, cap in hand, to the seller, but that is a purely moral, not a legally relevant, distinction. The courts have dealt with such cases most commonly in the context of the sale of goods.[8] However, they are apt to occur just as readily in cases involving other types of contract. One of the most illuminating Australian cases is *Electronic Industries Ltd v David Jones Ltd* ("*Electronic Industries*").[9] An electronics firm agreed to demonstrate, for a charge of £2 500, television equipment (then still a novelty in Australia) in a depart-

6. (1890) 6 WN (NSW) 130.
7. (1957) 98 CLR 93.
8. For a review of the English case law, see S Stoljar "The modification of contracts" (1957) 35 Can B R 485.
9. (1954) 91 CLR 288.

ment store for a specified period. The store requested a postponement because, at the time specified, the great coal strike of 1949 disrupted public transport in Sydney, keeping most of the store's customers out of the city and thus away from the store. The electronics firm showed some forbearance, only to find that, in the end, the store tried to abandon the contract altogether. More will need to be said about this important case in due course.

A typical feature of situations like those in these three cases is that one party, with the full backing of the law, wants to go ahead with the contract, whilst the other, without any help from the law, is seeking some postponement or other modification of performance. It is of course possible that, in special circumstances, both parties happen to be interested in the same kind of modification of the performance. If, in *Tallerman*, for example, the wholesaler had been facing difficulties in obtaining supplies of bullets from the Hungarian manufacturers, he might have welcomed the retailer's request as matching his own requirements. Adjustments, which raise factual and legal problems fundamentally different from the ones under discussion here, will be readily agreed upon in such situations. They will be excluded from consideration. Very few such cases are to be found in the reports.[10] This investigation will be confined to cases in which the concession sought is unilateral, that is, is in the interest of the requesting party and contrary to the interest of the party to whom the request is addressed.

Requests for a forbearance are usually made from a position of legal weakness, for the law requires strict compliance with the terms of the contract. Nevertheless, commercial experience and reported cases show that concessions of this kind are very frequently made, however unwelcome they may be to the party facing the request. A request for a postponement of delivery or similar concession is often the first sign of greater problems yet to come. A refusal may cause an immediate breakdown in the contractual relationship. Faced with this dilemma, it may be sensible to grant the requested concession, in the hope that the contractual venture will thereby be saved.

10. One such rare example is *Besseler Waechter Glover & Co v South Derwent Coal Co, Ltd* [1938] 1 KB 408.

II. LEGAL SIGNIFICANCE OF REQUEST FOR FORBEARANCE

An informal request for forbearance is a perfectly normal and natural way for a party in difficulty to seek to initiate some adjustment to the performance of the contract. If couched in the appropriate informal and tentative language, it should not, in itself, entail any legal disadvantage for the party who submits it. Doubts about this seemingly simple proposition were introduced by Justice Brett in *Plevins v Downing*.[11] A seller of iron had requested extra time for delivery: when he sued for the purchaser's failure to accept the iron at a later time he was told by the court:[12]

> [I]f the alteration of the period of delivery were made at the request of the vendor, though such request were made during the agreed period for delivery, so that the vendor would be obliged if he sued for a non-acceptance of an offer to deliver after the agreed period to rely upon the assent of the vendee to his request, he could not aver and prove that he was ready and willing to deliver according to the terms of the original contract. The statement shows that he was not.

That comes close to an assumption that the request itself amounts to (or at least evidences) a breach. It is true that inability to perform as well as an expressed (though not an unexpressed) unwillingness to do so, even when they occur before the due date, can amount to a breach.[13] However, it seems wrong to read either inability or unwillingness into a simple request for a forbearance. It must be very common commercially for a party to seek some adjustment to the mode of performance in the hope of avoiding an inconvenience. Reported cases occasionally show that the party who makes such a request is quite prepared to comply with the letter of the contract, should the request be refused. In cases in which a party requests a forbearance, is granted it and then defaults regardless,[14] one may wonder whether his commitment to the contract was sufficiently strong at any stage. However, unless the circumstances allow no other conclusion, a party requesting a forbearance should not be rashly accused of being already determined to break the contract. To do so means not only to presume him guilty, but to presume him guilty before there has been an offence. As Chief Justice Dixon stated in

11. (1876) 45 LJCP 695.
12. Ibid, 696.
13. *Universal Cargo Carriers Corp v Citati* [1957] 2 QB 401; *Frost v Knight* (1872) LR 7 Ex 711.
14. See *Electronic Industries* supra n 9.

Rawson v Hobbs:[15] "One must be very careful to see that nothing but a substantial incapacity or definitive resolve or decision against doing in the future what the contract requires is counted as an absence of readiness and willingness." The proper course throughout is to presume a willingness to obey the contract if the obligee insists.[16] The suggestion which appears in *Plevins v Downing* should not be followed in Australia.

III. EARLY JUDICIAL RESPONSES TO FORBEARANCE ARRANGEMENTS

A party whose request for such a concession is refused will either perform, despite his difficulty in doing so, or he will default. In either case the legal consequences will be reasonably clear. Legal complications tend to occur when the request is granted and when the contract nevertheless breaks down in the end. In *Tallerman*, for example, the buyer's request for an extension was just the prelude to his ultimate refusal to accept the bullets (which had become virtually unsaleable) upon any terms or at any time. Once this stage is reached, the parties will tend to rely upon the forbearance arrangement as a source of legal rights or defences, additional to (or substituted for) those which flow from the original contract itself. The legal issues which thus arise have proved intractable. The English cases, usually grouped under headings such as "waiver" or "forbearance", are notoriously difficult to reconcile and to understand.[17]

The typical forbearance arrangement involves a willingness by an obligee to accept a modified performance in lieu of the performance owing. Understandably, judges have, on occasion, regarded the forbearance arrangement simply as a special variant of accord and satisfaction.[18] The consequences of this view have not been fully accepted by the courts; instead, the forbearance arrangement has developed a legal identity of its own: the two types of arrangement can be distinguished legally. The legal effectiveness of a substitute performance in discharging the obligation derives wholly from the accord. The legal effectiveness of a performance changed by forbearance in its timing or its mode does not have to be inferred from the forbearance arrangement: it follows from the rule that performance discharges the

15. (1961) 107 CLR 466, 481.
16. The High Court appears to have invoked such a presumption in *Barns v Queensland National Bank Ltd* ("*Barns*") (1906) 3 CLR 925, 936 onwards.
17. See, for example, *Ogle v Earl Vane* (1868) LR 3 QB 272.
18. See *Cuff v Penn* (1813) 1 M & S 21 Lord Ellenborough CJ, 27; *Moore v Campbell* (1854) 10 Ex 323 Parke B, 333; *Tallerman* supra n 7, Dixon CJ and Fullagar J, 113; Taylor J, 146.

obligation and from the applicability of that rule to substantial performance. As Justice Buller pointed out in *Warren v Stagg*, performance rendered in accordance with such an arrangement is "a substantial performance within the meaning of the first contract".[19] Although an analogy with accord and satisfaction must be borne in mind, it would be wrong to seek in it the answers to all open questions raised by forbearance arrangements.

An early attempt to provide a just and simple principle capable of resolving many of the problems raised by forbearance was made by Chief Justice Ellenborough in *Cuff v Penn*.[20] The case involved a contract for the supply of three hundred hogs of bacon, to be delivered in eight specified instalments over a period of nearly four months. After some instalments had been delivered, the buyer explained that sales were dull and asked for a slowdown in deliveries. The seller first obliged the buyer, but later became impatient and insisted upon acceptance of the balance. The buyer refused and put forward, when he was sued for damages, what was to become a stock defence in such cases: he submitted that the subsequent oral variation made to the original contract (which was in writing in compliance with the Statute of Frauds) had turned the contract into one which was now partly in writing and partly oral and that such contracts were not enforceable. Chief Justice Ellenborough conceded that a contract in writing under the Statute of Frauds cannot be varied by parol, but he sidestepped the objection: he stated that the substitution of "a new mode of delivery" at the purchaser's express request was not a variation. It was simply "an agreed substitution of other days than those originally specified for its performance: still the contract remains". It followed that the buyer was liable to pay damages for breach.

This decision could readily have become the basis of a doctrine to the effect that a waiver of delivery dates and of other aspects of the mode of performance is effective and perhaps even binding, even if it does not comply with all the usual prerequisites (for example form, consideration) for the conclusion of a valid contract. However, that was not to be: *Cuff v Penn* was later overruled,[21] and it became settled doctrine that a contractual alteration to the terms of a contract enjoys no exemption from the rules which govern contracts, merely because it is confined to changes in the mode of performance.[22] This led to decisions in which the kind of unmeritorious defence

19. Quoted by counsel in *Littler v Holland* (1790) 3 TR 590, 591.
20. Supra n 18.
21. *Stead v Dawber* (1839) 10 A & E 57; *Marshall v Lynn* (1840) 6 M & W 109.
22. Ibid.

which failed so deservedly in *Cuff v Penn* in fact succeeded.[23] Ever since, it seems to have been clear that there is no significant legal distinction between a forbearance arrangement which concerns mode of performance only and one which extends to quantum or substance.

IV. THE CONTRACTUAL STATUS OF FORBEARANCE ARRANGEMENTS

The defence put forward in *Cuff v Penn* was based upon an assumption which is just as problematical as it is significant: that the parties, when one requests and the other grants a unilateral forbearance in the form of a departure from the originally agreed time and mode of performance, intend to alter the terms of the contract. Some of the early English cases are flawed by that simplistic assumption which became revealed as such in *Ogle v Earl Vane*.[24] In that case the distinction emerged between a non-contractual forbearance and a contractual variation of the terms of the contract. A party who is approached with a request for a postponement of delivery or similar concession may find it sensible to make a *de facto* concession. At the same time, there would be little sense in relinquishing any of his legal rights which may stand him in good stead should the present difficulty develop into controversy or even litigation. His own willingness to abide by the terms of the contract gives him a position of strength which renders the making of *contractually agreed* concessions quite unnecessary.

Thus, it is surely appropriate in the majority of cases to interpret such concessions or forbearance arrangements as being merely statements of intent, not as in any way promissory and certainly not as giving rise to fully-fledged legal relations. The existence of such a presumption is borne out by Australian precedents.

It is significant that, when parties enter into forbearance arrangements after they have first sought legal advice, they (or, at any rate, he who grants the forbearance) tend to make explicit the absence of an *animus contrahendi*. In *Tallerman* the problems began, not with a meek request by the purchaser for time, but with an actual return of bullets already dispatched, followed by the purchaser's bold assertion of a right to take no more bullets than he actually needed. This placed the seller sufficiently on his guard to have the further correspondence conducted through his solicitor. The purchaser eventually offered "without prejudice to its legal rights" to give "delivery

23. Ibid.
24. Supra n 17.

instructions covering the balance of bullets ... so that the final delivery will be made not later than 30th September". After some further correspondence the seller's solicitors wrote: "We ... have now been instructed to accept your client's offer ... to the effect that delivery of the balance of this order for bullets will be accepted not later than 30th September next." In an action by the seller against the purchaser who had eventually declined to accept the bullets altogether, the trial judge found that these letters amounted to a contract of variation, but he apparently overlooked an important circumstance, namely that the seller's letter (like the purchaser's) was headed "without prejudice". On appeal the view prevailed that that expression preserved all the rights under the original contract. As Chief Justice Dixon and Justice Fullagar explained:[25]

> *[B]oth* letters were expressed to be without prejudice. It is, of course, clear that, if, during a dispute, an offer of a compromise is made 'without prejudice' and is accepted *simpliciter*, the fact that the offer was made without prejudice ceases to have any significance ... But it might well be said that no corresponding interpretation can be given to an acceptance without prejudice. Do not the words 'without prejudice' mean that there is no real acceptance?

Their Honours further thought that, even if there had been an acceptance, the resultant arrangement would not have been a variation of the original contract of sale.[26]

When there is no expression such as "without prejudice" to guide them, judges still will occasionally make somewhat precipitate findings that the parties meant to vary or rescind the contract. A good Australian example of the mischief which can flow from this tendency is *Electronic Industries*, the facts of which case have already been partly related.[27] To the store's request for a postponement of the demonstration period (fixed by the contract to be two weeks, beginning 11 July), the television firm responded that they "would be pleased to vary our agreement with you by an alteration of the dates of the demonstration" and proposed a two-week period commencing 22 August. The store allowed the commencement date set by the contract (11 July) to pass, quibbled about the alternative date proposed, and eventually refused altogether to have the demonstration, claiming that it would only have suited them to have held it during the winter. The television firm sued for damages for breach of contract.

25. Supra n 7, 110.
26. Ibid, 113.
27. Supra n 9.

Justice Kinsella awarded substantial damages, but the Full Court of the Supreme Court of New South Wales allowed an appeal from the judgment and found for the defendant. The *Cuff v Penn* type of defence was of no avail since this contract was not caught by the Statute of Frauds, but the Full Court accepted another ingenious defence which was just as unmeritorious: the parties had contractually removed from the contract the original commencement date and had substituted a term that the demonstration was to take place at a time to be agreed - a term which was illusory and made the whole contract unenforceable![28] The Full Court were fully awake to the distinction between a mere forbearance which leaves the original contract in full force and mutual rescission or variation which does not,[29] and emphasized correctly that the question was essentially one of interpretation or fact.[30] It is surprising that their Honours chose an interpretation so calamitous to the interests of the plaintiff who had been faithful to the contract and generous in accommodating the defendant in its difficulties. On further appeal the High Court disagreed with the interpretation adopted by the Full Court:

> Never for a moment did the plaintiff mean to exonerate the defendant from the contract. All it meant to do, and all it did do, was to accede to the defendant's request for a postponement in order to oblige the defendant ... [T]he plaintiff expressed its willingness to vary the contract by substituting a new agreed date, and awaited an answer to its proposal, forbearing in the meantime in pursuance of the defendant's request to tender performance.[31]

It is occasionally suggested that the interpretation of forbearance arrangements as non-contractual is merely a subterfuge employed by the courts to give a modicum of effect to them when otherwise the Statute of Frauds would condemn them to complete impotence. On the contrary, *Tallerman* and particularly *Electronic Industries* (which was not encumbered by difficulties imported by the Statute of Frauds) show that such an interpretation flows from a realistic and entirely appropriate assessment of the parties' true interests and positions.

The precipitate interpretation of forbearance arrangements as contractual is only one of the fallacies to be avoided. At the other extreme, one encounters the *non sequitur* that, because such an arrangement cannot have the effect of a contractual variation, it cannot have any legal consequence at all. The simple form of accord and satisfaction also lacks contractual status, and yet,

28. (1954) 54 SR (NSW) 102.
29. Ibid, 109.
30. Ibid, 110.
31. Supra n 9, 297.

its impact upon obligations can be considerable. In *Tool Metal Manufacturing Co Ltd v Tungsten Electric Co Ltd* ("*TMMC*")[32] Viscount Simonds stated: "... I would not have it supposed, particularly in commercial transactions, that mere acts of indulgence are apt to create rights...." With respect, such a statement does no harm if it is read as a description of a broad and general position. However, it becomes misleading when it is taken too literally and allowed decisive impact upon the detailed legal problems which are occasioned by forbearance arrangements.

The fallacious view of forbearance which denies it all (or almost all) legal consequences has not had a powerful influence; nevertheless, its manifestations and its potential for mischief are sufficiently distinct to justify careful attention to it. It has become evident in the form of three more specific fallacies, for it has led to occasional denials of (1) the major impact which forbearance has upon breach; (2) the important interaction between an arranged forbearance and the contractual terms; and (3) the possibility of legal limits being placed upon the withdrawal of forbearance.

V. LEGAL EFFECT OF FORBEARANCE ARRANGEMENTS AT COMMON LAW

A. Forbearance Arrangements and Breach

According to the common law tradition, any departure by the promisor from the terms of his contractual promise is a breach, except when such a departure is justified by a "lawful excuse".[33] One such lawful excuse, applicable to mutually dependent covenants, is the promisee's failure to be ready and willing to render his promised counter-performance. Another, equally important, must surely be the promisee's advance consent to the departure, for that deprives it of its wrongfulness. A forbearance arrangement implies just such consent and therefore turns any departure which is within its scope into a neutral act, that is, one which does not constitute breach.

A simple and impressive early Australian application of this principle occurred in *Embrey v Earp*,[34] the facts of which have already been related in part. It was the seller who eventually refused to deliver the balance of the

32. [1955] 1 WLR 761, 764.
33. G H Treitel *Remedies for Breach of Contract: a comparative account* (Oxford: Clarendon Press, 1988) part 10.
34. Supra, n 6.

wheat (the price of wheat having risen) and who sought to plead, as a defence to the buyer's action for breach, the buyer's earlier request for smaller instalments with which he, the seller, had complied. The buyer's action for breach succeeded. The Chief Justice commented upon the seller's defence: "There was an acquiescence by both parties that one should deliver and the other accept a less quantity per month than that originally agreed upon. There was therefore no breach of contract ..."[35] Justice Windeyer stated: ".... a strict compliance with the terms of delivery was waived.... I am of opinion that the contract was never broken until the defendant refused to deliver the balance."[36] It follows that a declared and agreed forbearance has, at the very least, the effect of rendering legitimate a departure from the contractual terms which would otherwise have been a breach.

B. Forbearance Arrangements and Fundamental Breach

Forbearance neutralizes breach in the sense that it not only excludes a right to damages but also bars the right to discharge the contract for breach where that right would otherwise have existed. In *Bacon v Purcell*[37] a contract for the sale of cattle called for delivery on 26 April 1912. By 29 April even the mustering of the cattle (a process preparatory to delivery for which about ten days were required) had not yet begun and the purchaser refused to accept delivery. The delay was substantial and would, in the circumstances so far related, have justified the purchaser's refusal.[38] However, the vendor's action for damages for wrongful repudiation of the contract was successful because of the following additional circumstances. When the vendor had encountered difficulties obtaining the necessary help with holding the cattle while they were being mustered, the purchaser's agent had promised to help with the holding, but had then found it impossible to do so promptly. When the vendor voiced his anxiety about the delivery date, the purchaser's agent had replied: "What does it matter about the date? I suppose you have got the cattle there, and I will take them anyhow." The Privy Council held that this had been said with the purchaser's authority and that it amounted to a verbal and effective waiver of the delivery date: consequently, the purchaser's rejection of the cattle was not justified by any breach on the part of the vendor, but was in

35. Ibid, 131.
36. Ibid.
37. (1914) 22 CLR 307.
38. See observations by Buckmaster LC, ibid, 311.

itself a material breach of the contract.[39] The Privy Council pointed out that the vendor had given up alternative arrangements for mustering in reliance on the assurance he had received.[40] Such "detrimental reliance", such "acting on" the forbearance arrangement may be an essential element for some purposes, but the arrangement seems capable of preventing breach even if reliance is not positively shown: the wrongfulness of the obligor's departure from the terms of the obligation is removed simply by the obligee's consent.

C. Forbearance Arrangements After Breach

Discussion so far has been confined to forbearance before default. Forbearance after default is just as common[41] and it raises almost the same problems. Such forbearance obviously cannot prevent a breach which has already occurred, but does it remove its consequences?

In *Cromer v Harry Rickards' Tivoli Theatres Ltd*,[42] the defendant engaged an English comic for twelve weeks and undertook to arrange and pay for her passage by ship from England "in or about October, 1919". Not only did the defendant delay the arrangements so that the comic, the plaintiff, did not sail before 10 April 1920, but he also wrongfully dismissed the plaintiff after only the briefest period of work in Australia. One of the issues was whether the plaintiff's damages should include an item for loss of earnings sustained in England while she was waiting for her passage. Justice Angas Parsons decided that they should not:

> It was within the power of the plaintiff to treat the defendant's delay as a breach, and renounce the contract ... [B]y [refusing to do so] and [by] proceeding with the contract, she must, in my opinion, be taken to have waived any right to damages for such delay ... I cannot find more than voluntary forbearance on the part of the plaintiff in this case, and this gives her no right in law to claim damages for her patience. She could at any time have changed her mind and required the defendant to perform [his] contract ...[43]

His Honour did not invoke any principle of equity; he must have considered that, at common law, a forbearance arrangement after breach will

39. In his dissenting judgment (vindicated as correct by the Privy Council) Griffith CJ had characterised the arrangements between the vendor and the purchaser's agent as follows: "... the actual arrangements between the plaintiff and Oliffe ... were not in substance an alteration of the terms of the contract ... but a mere adjustment of the details of the manner in which it was to be performed." - (1914) 19 CLR 241, 252. The Chief Justice's judgment contains a detailed analysis of the relevant facts.
40. Supra n 37, 312.
41. For example, *Ogle v Earl Vane* supra n 17.
42. [1921] SASR 325.
43. Ibid, 331.

undo the breach and thus terminate an already existing cause of action. That goes a great deal further than does the rule laid down in *Embrey v Earp*.[44] With respect, the common law knows no such principle. The true position was stated by Justice Starke in *Mulcahy v Hoyne*:

> [A]t law rights of action arising from breach of contract could only be waived by a release or by accord and satisfaction, which, as Anson says '... brings us back to the elementary rule of contract, that a promise made without consideration must, in order to be binding, be made under seal.' Otherwise, the promise is a voluntary forbearance which does not preclude a party from relying upon the provisions of his contract ...[45]

It follows that a contract-breaker does not regain his "innocence" even if he secures the forbearance of the other side.

D. Promisor's Default After Promisee's Forbearance: Retrospectivity of Breach?

Not infrequently it will be the party who sought the original forbearance who will eventually abandon the contract. It has been suggested that, despite the promisee's earlier forbearance, such eventual default retrospectively bestows the quality of breach upon the defaulter's earlier departures from the contractual terms. The main authority for this proposition is *Hickman v Haynes*.[46] The plaintiff had sold to the defendants a quantity of iron for delivery in June 1873. The defendants refused to accept the iron after they had first successfully requested the plaintiff to delay delivery beyond the end of June. When sued for breach, the defendants tried to turn the "forbearance does not affect the contract" view into a technical defence. They argued that the plaintiff, having (admittedly at their request) abandoned all attempts to deliver in June, had not been ready and willing to deliver at the relevant time and was thus unable to recover. The Court of Common Pleas rightly thought the defence wholly without merit: "... although the plaintiff assented to the defendant's request not to deliver the twenty-five tons ... in June, he was in truth ready and willing then to deliver them, and ... the defendants are at all events estopped from averring the contrary."[47] Although this rejects the defence, it does so on a ground which half-concedes its technical basis, that is, that forbearance has no impact upon the contract. That impression is

44. Supra nn 34-36.
45. (1925) 36 CLR 41, 58.
46. (1875) LR 10 CP 598.
47. Ibid, 607.

further strengthened by the way in which the Court dealt with the problem of the defendants' breach:

> The plaintiff not having bound himself by any valid agreement to give further time, but having for the convenience of the defendants waited for a reasonable time after the letter of the 9th of August to enable the defendants to perform the contract on their part, is entitled on the expiration of that time to treat the contract as broken by the defendants at the end of June, when in truth it was broken.[48]

On this view a departure from the terms of the contract is "in truth" a breach, notwithstanding the fact that the obligee has declared his forbearance (which implies consent) in advance: the forbearance is seen as temporarily suspending the rights flowing from the "breach", but, as allowing unimpeded access to them if, after the additional time conceded by the forbearance arrangement, the obligor still defaults. This kind of "relation-back" doctrine obviously keeps the impact of forbearance to a minimum.

The major premise which underlies much of the reasoning in *Hickman v Haynes* is the superficially plausible premise that a forbearance arrangement, being non-contractual, cannot have any impact upon the contract and upon the rights of the parties. Such a proposition can obviously not be binding upon a court of equity, but even at common law, it contains a serious fallacy. Even though forbearance arrangements cannot create or modify rights on their own, they can still do so as a result of their interaction with the terms of the contract.

E. Forbearance Arrangements: Interaction with the Terms of the Contract

Dowling v Rae[49] can be seen as yet another case which tends to ignore or understate the interaction between forbearance and contractual terms. The case is introduced here because it illustrates the possibility and the nature of that interaction particularly well.

A contract for the sale of sheep provided for delivery by 1 November 1925 and for "payment three months from delivery". The purchaser having defaulted, the question was whether *del credere* agents whom the seller had sued could be held liable. Their defence was that their liability had been discharged under the rule that an extension of the time for payment granted

48. Ibid.
49. (1927) 39 CLR 363.

by the creditor to the debtor discharges the surety. The crucial question was whether the seller had in fact extended the purchaser's time for payment. The contract was in writing as required by the Victorian Sale of Goods Act 1895 and, at the purchaser's request, the seller had agreed to delay the delivery of the sheep until 12th November. That arrangement was an oral one only and it was common ground that it did not amount to a variation of the terms of the contract. Justice Powers seems to have considered[50] that only a contractual variation of the payment date could have freed the sureties;[51] his Honour thus had little difficulty in finding for the plaintiff. Justice Isaacs, with whom Chief Justice Knox agreed, seems to have seen a further complication. The contract required payment "three months from delivery" which could surely mean "three months from the actual, as distinct from the contractually agreed, delivery date". Upon this basis the seller's forbearance would have extended the date of payment, though in line with the payment provision of the contract rather than by a contractual variation of it. Whether such an extension (which could be just as long and risky to a surety as one which is contractually agreed) frees the surety may well be an open question. Justice Isaacs avoided raising this awkward issue by adopting a view of forbearance which denies it any kind of impact upon the contract, even upon its operation:[52] "If at the purchaser's request the delivery was postponed, it was, unless the contrary were shown, at the purchaser's risk without prejudice to the vendor's right to be paid as if delivery were accepted at due date."[53]

It seems unnecessary to quarrel with Justice Isaacs' treatment of the matter which certainly prevented the sureties from riding free on a technicality, even if it had little else to commend it. However, the case shows that a choice must be made between a view of forbearance which denies it all (or all but minimal) impact upon the contract, and one which assumes that forbearance may, depending upon the circumstances and the construction of the terms, interact in a quite major way with the contract in its actual

50. Ibid, 378-380.

51. "It is settled that an extension of time granted to a principal debtor does not discharge the surety unless the extension is granted by a 'binding agreement'." - *Queensland Investment and Land Mortgage Co Ltd v Hart* (1894) 6 QLJ 186 Griffith CJ, 192.

52. Ibid, 370 onwards.

53. The learned judge bolstered that conclusion by adopting the following construction of the term for payment (at 370): "... the contract was that payment was to be made not later than three months after 1st November." As already indicated, that was certainly not the only possible construction; it would have been palpably inappropriate, had delivery been delayed due to some fault of the seller.

operation. In *Electronic Industries*,[54] the Full Court of the Supreme Court of New South Wales and the High Court of Australia divided over this important issue, the former adopting a minimalist stance whilst the latter favoured the kind of dynamic view of contractual terms which enables forbearance to have a major impact, even at common law.

F. Forbearance Arrangements and Readiness and Willingness to Perform

The Full Court of the Supreme Court, seemingly inspired by the *Hickman v Haynes* philosophy, felt committed to the view that, the forbearance arrangement notwithstanding, the parties had to remain ready and willing to perform on the contractually agreed due date. The learned judges endorsed a statement from *Halsbury's Laws of England* that "either party is entitled to resile [from the forbearance] ... and to call upon the other to resume performance of the contract according to its letter ...",[55] and amplified it as follows:

> The party who has been requested to forbear must, notwithstanding his readiness to accede to this request, be at all times ready and willing to perform the contract at the time originally stipulated. The effect of the request is to relieve him, not from the obligation to be ready and willing to perform, but from the actual tender of performance, and it is to the tender of performance, and not to readiness and willingness to perform, that the forbearance relates. The party who makes the request can always retract it, provided he does so in time to allow the other party, who must be at all times in a state of readiness and willingness, to tender performance on the stipulated date. The party to whom the request is made, and who has expressed his willingness to forbear, may at any time change his mind and tender performance on the stipulated date, without even being required to give notice of his intention so to do, and in that case, if the requesting party does not accept the tender, he is in breach. All these consequences follow from the fact that a mere forbearance has no binding contractual force. Either party may change his mind and insist that the contract be performed according to its terms, subject only to the qualification that the party who has requested the forbearance must give sufficient notice of his change of mind to enable the ready and willing other party to tender performance.[56]

Surely the practical results of such a view would be highly inconvenient. A forbearance arrangement allowing a party to postpone performance for a year would mean that both parties would, during the whole of that period, have to remain ready for performance at any time of the other party's

54. Supra n 28.
55. 29 *Halsbury's Laws of England* (2nd ed 1938), 44.
56. Supra n 28, 109.

choosing. A contractual doctrine more calculated to stifle productive capacity is difficult to imagine. This view of the Full Court cannot stand with the commercially more realistic outlook of the High Court in the same case.

G. Forbearance and Terms: A Dynamic View

On appeal, the High Court exposed the fallacy of the conclusion drawn by the Full Court: a more dynamic view of contractual terms enabled the High Court to give the forbearance arrangement significant effect.[57]

It will be recalled that the contract called for the demonstration to commence on 11 July 1949. Once that date had been allowed to pass, it no longer made sense to insist that the parties' actual duty, as distinct from the express term of the contract, was to start performance on 11 July. As the High Court rightly stated: "... there was no longer a fixed date for performance..."[58] One crucial question was: what was the new date? Justice Kinsella had taken the view that there was now an obligation to perform within a reasonable time. His Honour seems to have felt that such an obligation could only have come into being by virtue of a new contract, and he was prepared (wrongly, as it turned out) to find that one had been made.[59] The High Court saw no difficulty in finding a "back-up" obligation to perform within a reasonable time already potentially inherent in the original contract:

> In the situation which resulted both parties remained bound by the contract. The fact that there was no longer a fixed date for performance brought into application the principles which impose on parties, in all cases where the performance of their obligations requires co-operative acts, the duty of complying with the reasonable requests for performance made by the other. In *Mackay v Dick*[60] Lord Blackburn says:- 'I think I may safely say, as a general rule, that where in a written contract it appears that both parties have agreed that something shall be done, which cannot effectually be done unless both concur in doing it, the construction of the contract is that each agrees to do all that is necessary to be done on his part for the carrying out of that thing, though there may be no express words to that effect'.[61] What it was reasonable for the plaintiff to demand was that within a specified time when the plaintiff's apparatus was not unreasonably committed elsewhere the defendant should name a time for the plaintiff to commence the fortnight's exhibition or demonstration and should make available its store for a reasonable period in advance of the date for the plaintiff to install its equipment and make the necessary preparations. Of course the plaintiff could not give the defendant an unreasonably short period of time or one specifically inopportune to the defendant, having regard to the purposes to be served by the exhibition. All that the

57. Supra n 9.
58. Ibid, 297.
59. See the brief account of his Honour's judgment in (1954) 54 SR (NSW) 102, 108.
60. (1881) 6 App Cas 251.
61. Ibid, 263.

> plaintiff was bound to do was to take reasonable measures to obtain from the defendant a time when he might enter the store for the purpose of performing his part of the contract and no doubt there were more ways than one in which the plaintiff might have acted. By any appropriate demand the plaintiff was entitled to require the defendant to make its store available to the plaintiff to perform its obligation at some proper and reasonable time. It is hardly necessary to repeat the commonplace statement that what is reasonable depends on all the circumstances including the nature and purpose of the express stipulations.[62]

H. Forbearance Arrangements: Binding Effect at Common Law?

The analysis of the parties' obligations contained in this passage has a direct bearing upon their ability to withdraw from the forbearance arrangement. Such an arrangement cannot be binding of its own force, at least not at common law.[63] The revocability of such arrangements is often inferred from the assumed absence of consideration,[64] but that explanation can be appropriate only in rare cases, for in most cases the arrangement results in adjustments to the performance of both parties, which fact would readily supply consideration if an agreed *animus contrahendi* were present as a major premise from which to infer the scope and nature of the terms. In those exceptional cases in which the forbearance arrangement serves the convenience of both parties[65] there appears to be no reason why one should not presume the *animus contrahendi* and view the arrangement as a fully-fledged variation of the terms. It is only in the diminishing range of cases governed by the Statute of Frauds and its successor statutes that the absence of writing might give rise to problems.[66]

Where forbearance arrangements involve unilateral concessions, a presumption against the *animus contrahendi* should be applied,[67] and that will mean that limits to revocability cannot be inherent in the arrangement itself. Nevertheless, such limits can arise from at least two sources extrinsic to the arrangement: (1) the terms of the original contract; (2) certain principles of equity.

62. *Electronic Industries*, supra n 9, 297 onwards.
63. Statements such as that in *Gray v Lang* (1956) 56 SR (NSW) 7, 11 which appear to be to the contrary, hark back to *Cuff v Penn*, supra n 18. It is difficult to see how they can now be supported.
64. Ibid.
65. Supra n 10.
66. See the line of cases commencing with *Cuff v Penn*, supra n 18; Stoljar, supra n 8.
67. Supra Part IV.

The first of these limitations is amply apparent from *Electronic Industries*. The passage from the judgment of the High Court quoted above shows that, once the original performance date had passed, neither party was able to tender or to demand performance abruptly. Although both parties retained all their rights and remained subject to all their duties under the contract, the contract now meant that the plaintiff, when demanding performance, had to allow the defendant time to prepare (by advertising and in other ways) for the demonstration: and the defendant, when demanding performance, had to allow the plaintiff time to disengage its equipment which might reasonably have been engaged elsewhere in the meantime. These limits, which the court inferred from the common law principle in *Mackay v Dick*, are inconsistent with any suggestion which might be made[68] that, despite the forbearance arrangement, the parties must remain "on call", that is, ready and willing to perform at any time. The forbearance arrangement leaves both parties free, within reason, to use their capacities in other ways, secure in the knowledge that the other cannot call for performance without allowing a reasonable time for it. Equity would, one assumes, lead to the same result, but its intervention is not required.

The judgment of the High Court in the *Electronic Industries* case is open to the interpretation that the principle in *Mackay v Dick* redefines the parties' duties only once the date for the commencement of performance has passed. The forbearance arrangement in the case preceded the commencement date (11 July 1949) significantly and one must ask the important question whether and to what extent it affected the operation of the parties' obligations even before that date. To say that "there was no longer a fixed date for performance" even in relation to the period between the forbearance arrangement and 11 July could be problematical, because it could mean giving contractual effect to a non-contractual arrangement. In the passage quoted earlier,[69] the Full Court of the Supreme Court of New South Wales ruled out any such impact upon contracts with quite specific reference to the situation before the contractual performance date: to that extent there may be merit in the dictum, at least in so far as it purports to state the common law. A final view upon this matter need not be expressed, since the help of equity can be invoked to resolve satisfactorily all cases of real hardship.

68. Supra Part V, 6.
69. Ibid.

VI. LEGAL EFFECT OF FORBEARANCE ARRANGEMENTS IN EQUITY

A. Does Equity Support Forbearance Arrangements?

In the long debate about promissory estoppel which began in earnest after *Central London Property Trust Ld v High Trees House Ld* ("*High Trees*")[70] it has been accepted as axiomatic that, in the absence of a *promised* concession, the doctrine cannot apply. Moreover, there is high authority for the proposition that the promise must have been made in circumstances which show that it was accompanied by an intention to affect the legal relations between the parties. In *Waltons Stores v Maher*,[71] Justice Brennan stated that the doctrine of promissory estoppel had "no application to an assumption or expectation induced by a promise which is not intended by the promisor and understood by the promisee to affect their legal relations". Greig and Davis have concluded that "the doctrine is limited to promises and agreements and [includes] representations as to intention only in so far as they are promissory in nature."[72]

This contribution is not intended to offer any direct views concerning the doctrine of promissory estoppel in the form which it has assumed in Australia since *Waltons Stores v Maher*. Therefore, it is unnecessary to subject the statements just related to direct critical analysis. However, one must insist that they should not be interpreted as denying the assistance of equity to parties to forbearance arrangements which, by virtue of the definition adopted here, lack promissory and contractual status. As will become apparent from the cases to be discussed in this section, such a denial would be contrary to precedent. It would also be contrary to principle and to compelling analogy.

As for principle, surely equity would not allow parties to a forbearance arrangement to turn around at a moment's notice, however inconvenient that might be to the other side, and demand adherence to the letter of the contract. Even the common law will lean against an interpretation of the terms which would compel such an unjust result.

70. [1947] KB 130.

71. Supra n 1, 421. See the dictum to the same effect by Denning J in *High Trees* supra n 70; for a discussion of the problem, see Lindgren, supra n 1, 172.

72. D W Greig and J L R Davis *The Law of Contract* (Sydney: Law Book Co, 1987) 142.

The law relating to licences to occupy land provides a very close analogy. In *Winter Garden Theatre (London) Limited v Millenium Productions Limited* Viscount Simon stated, referring to a gratuitous licence given by A to B to walk across A's field: "Such a gratuitous licence would plainly be revocable by notice given by A to B. Even in that case, however, notice of revocation conveyed to B when he was in the act of crossing A's field could not turn him into a trespasser until he was off the premises, but his future right of crossing would thereupon cease."[73] It seems highly appropriate that equity should impose a period of grace to ensure the orderly winding up of the licence relationship.[74] A forbearance arrangement implies a gratuitous licence to depart from the strict terms of the contract and thus represents a closely analogous situation. At the very least, equity must allow a period of grace before full contractual rights can be resumed.

Although a discussion of promissory estoppel as established by recent High Court decisions[75] will be avoided, some of the generally assumed ancestry of that doctrine will need to be analysed for either one of two possible reasons. It is arguable that some of the early cases which are often taken to have been instances of promissory estoppel did not in fact involve promises and that their true legal significance has therefore been mistaken. Alternatively, it may be said quite confidently that, if such cases did involve promises, equitable intervention would have been equally appropriate even if the conceded departures from the strict contractual terms had been non-promissory. All this applies particularly to *Hughes*.[76] A landlord gave his tenant six months notice to repair the leased premises: failure to comply meant forfeiture of the lease. Although the tenant did not effect the repairs within the six months, the reason for this apparent tardiness was that the landlord, having served the notice, had assured him of additional time. The House of Lords held that the concession, which had been implied in negotiations for the surrender of the lease, and the tenant's reliance upon it, debarred the landlord from enforcing the forfeiture. As Lord Cairns explained:

> [I]t is the first principle upon which all Courts of Equity proceed, that if parties who have entered into definite and distinct terms involving certain legal results - certain penalties or legal forfeiture - afterwards by their own act or with their own consent enter upon a course of negotiation which has the effect of leading one of the parties to

73. [1948] AC 173, 188 onwards.
74. See *Australian Blue Metal Ltd v Hughes* [1963] AC 74.
75. Supra n 1.
76. Supra n 5.

> suppose that the strict rights arising under the contract will not be enforced, or will be kept in suspense, or held in abeyance, the person who otherwise might have enforced those rights will not be allowed to enforce them where it would be inequitable having regard to the dealings which have thus taken place between the parties.[77]

This pronouncement (the "doctrine" in *Hughes*, as Chief Justice Griffith called it long before its great significance was understood in England[78]) has become the *fons et origo* of the equitable jurisdiction to lend limited support to forbearance arrangements.

In *Birmingham & District Land Co v London & North Western Railway Co*,[79] Lord Justice Bowen made it clear that the rule stated by Lord Cairns is not confined to cases involving forfeiture. His Lordship also broadened the rule further by dispelling the impression (conveyed by the original formula proffered by Lord Cairns) that it only applies when the supposition that rights will not be enforced has been created in the course of negotiations for a new contract. Lord Justice Bowen reformulated the rule so that it embraces "inducement by conduct" generally: "[I]f persons who have contractual rights against others induce by their conduct those against whom they have such rights to believe that such rights will either not be enforced or will be kept in suspense or abeyance for some particular time, those persons will not be allowed by a Court of Equity to enforce the rights until such time has elapsed, without at all events placing the parties in the same position as they were before."[80]

The *Hughes* doctrine in this broadened form made an early impact upon Australian jurisprudence when it was applied by the High Court in *Barns* :[81] the High Court gave an affirmative, albeit rather diffident answer to the question whether the doctrine could assist an obligor who, after his own default, had secured an assurance of the obligee's forbearance. The High Court entertained no doubt that the doctrine applied to forbearance before default. Such, after all, had been the situation in *Hughes*. Speaking for the Court, Chief Justice Griffith explained: "In that case the negotiations referred to had taken place after the giving of a notice requiring the doing of an act, but before the expiration of the period within which the act was required to be done. No actual default, therefore, had been committed."[82]

77. Ibid, 448.
78. *Barns*, supra n 16, 938.
79. (1889) LR 40 Ch D 268, 286.
80. Ibid, 286.
81. Supra n 16.
82. Ibid, 938.

Beginning with his decision in *High Trees*,[83] Lord Denning made a determined attempt to give the *Hughes* doctrine a much wider ambit and a more efficacious operation. The resulting controversy,[84] culminating in Australia in the acceptance of a doctrine of promissory estoppel, has tended to obscure the fact that the *Hughes* doctrine in its original setting can claim a modest, but legitimate field of application which deserves to be quite uncontroversial. It cannot be disputed that, in relation to non-contractual forbearance arrangements, the doctrine plays a useful and necessary role, at least when such arrangements are made before breach or default. The discussion will be confined at first to cases in this category.

B. The *Hughes* Doctrine and Detrimental Reliance

Electronic Industries,[85] discussed before,[86] yields a typical and useful example. It will be recalled that the television firm agreed well before the performance date to a postponement of the July demonstration. This concession related to its "primary rights" under the contract (which were still contingent upon its own prompt acts of performance), not to absolute rights, still less to existing rights to sue or to take some other direct legal action. That is characteristic of any forbearance arrangement which seeks to adjust, before breach and without a formal variation, the actual operation, the manner of discharge, of a bilateral contract which is still executory on both sides.

It is important to recall that the common law itself plays its part in adjusting the operation of the contract in such a case consequent upon the forbearance arrangement. The arrangement implies the obligee's quite genuine consent to some alteration in the time or manner of performance, and the common law gives that consent significant effect: it allows the parties to depart from the terms without default or breach.[87] The *Hughes* doctrine determines the nature and extent of the supporting role which equity will play in such a situation.

A contract becomes binding the moment it is made. A forbearance arrangement, being non-contractual, lacks that quality, and it is difficult to see what obstacles there could be even in equity to its prompt repudiation by

83. Supra n 70.
84. For contributions to periodicals, see G H Treitel *The Law of Contract* 7th edn (London: Stevens, Sweet & Maxwell, 1987) 85.
85. Supra n 9.
86. Supra Part V, 7.
87. Supra Part V, 1-3; see also I D Campbell, "Gratuitous Waiver of Contractual Obligations" (1964) 1 *NZULR* 232, 234 onwards.

either side. Admittedly, Lord Cairns' original statement seems directed against all inequitable attempts at enforcement of the affected obligation, not excluding those which follow hard upon the arrangement itself. However, Lord Justice Bowen's reformulation of the *Hughes* doctrine implies that the obligor's equity does not arise until the obligee's concession has caused him to alter his position, and this aspect of the dictum was endorsed by Viscount Simonds in *TMMC*: "[T]he gist of the equity lies in the fact that one party has by his conduct led the other party to alter his position."[88] It could be argued that such a postulate results from confusion with the established principles of estoppel by representation,[89] but it is difficult to see what else, if not subsequent reliance, could bring the equity into operation.

The kind of conduct which will usually satisfy the requirement of alteration of position (or "detrimental reliance") is the making, by the parties, of adjustments to their business arrangements. In *Electronic Industries*[90] for example, the plaintiff engaged its equipment elsewhere instead of holding it in readiness for the July demonstration, whilst the defendant abandoned all preparations (such as advertising) for the time being. Unless there is evidence to the contrary, both parties to a forbearance arrangement which was followed by a corresponding departure from the terms must be taken to have acted in reliance upon the arrangement and thus to have "earned" the help of equity.

C. Detrimental Reliance; *res ipsa loquitur*?

In *Tungsten Electric Co Ltd v Tool Metal Manufacturing Co Ltd*[91] ("*TE Co*") the question arose whether a finding as to alteration of position could be made without specific evidence upon a *res ipsa loquitur* basis. The Tungsten Electric Co ("TE Co") manufactured (and sold) machine tool tips and similar items, using in the process a patent owned by the Tool Metal Manufacturing Co ("T Co"). The licence contract called for a ten percent royalty payable on the net value of all items sold plus an added thirty percent (called "compensation") on such of these items as exceeded a specified monthly quota. These compensation payments proved problematical for TE Co: they could not fully pass them on to their customers. When World War

88. Supra n 32, 764. Lord Cohen expressed himself in a similar way - ibid, 799.
89. G S Bower and A K Turner *The Law Relating to Estoppel by Representation* 3rd edn (London: Butterworths, 1977) 91 onwards.
90. Supra n 9.
91. (1950) 69 RPC 108.

Two broke out and production rose, the problem was much aggravated. TE Co's repeated protests now bore fruit: T Co agreed that, pending the envisaged conclusion of a new licence contract, they would charge only royalties and waive the compensation. In September 1944 T Co proposed a new licence contract which TE Co did not accept. When T Co tried again to charge compensation, as originally agreed, TE Co relied upon the interim agreement as a defence. The trial judge, Justice Devlin, held that T Co's concession was not binding upon them as a contract, but that it had the more limited effect of a forbearance arrangement:

> The rule that protects a party in circumstances such as these is a broad rule of equity and justice. It is not thought right that a man who has indicated that he is not going to insist upon his strict rights, as a result of which the other party has altered his position, should be able to turn round at a minute's notice and insist upon his rights, however inconvenient it may be to the party who thought he was temporarily relieved.[92]

Justice Devlin held that the compensation claimed (from June 1945) was unaffected by the arrangement, since T Co had terminated it by notice. The Court of Appeal, however, thought the notice insufficient (more about this in due course) and therefore had to determine whether the *Hughes* doctrine applied. There was very little evidence to show that TE Co had acted on T Co's concession, but the Court of Appeal considered that they must have done so: *res ipsa loquitur*. As Lord Justice Cohen stated: "... [TE Co] carried on their business during the war on the basis that the compensation would not be demanded until due intimation of the intention so to do was given."[93] Lord Justice Somervell amplified this argument by pointing out that TE Co's decisions as to volume of production, taxation declarations, distribution of dividends and determination of prices must all have been greatly influenced by T Co's concessions.[94]

In *TMMC*[95] (a sequel to *TE Co*) Lord Tucker doubted whether the *Hughes* doctrine could be applied when the obligor has given no precise evidence as to the manner or extent of his alteration of position.[96] With respect, the course taken by the Court of Appeal was eminently reasonable. The inference their Lordships drew as to TE Co's change of position seems compelling: detailed evidence could only have confirmed it. An obligor should be able to invoke the limited legal and equitable effects of the obligee's forbearance without

92. Ibid, 112.
93. Ibid, 116.
94. Ibid, 115.
95. Supra n 32.
96. Ibid, 784.

being forced into a protracted and expensive trial of the issue of his alteration of position. Australian authority seems to point in the same direction.[97]

D. The *Hughes* Doctrine: Mutuality

If A requests a forbearance and B intimates that he will grant it, it will usually be A who will seek to hold B to the arrangement. However, it is conceivable that A himself may change his mind and seek to return to the strict terms of the contract, whilst B has adjusted his arrangements and now finds the contract as written inconvenient. The *Hughes* doctrine will protect B no less than it would have protected A. In *Gray v Lang*[98] the Full Supreme Court of New South Wales stated, in relation to forbearance (or "waiver" as their Honours preferred to call it) that it "raises an equity against the party who granted it and, *a fortiori*, against the party who requested it..." With respect, that is common sense and equity, if not common law.[99]

E. Termination: The Problem of Notice

Forbearance may be arranged for a limited period by reference to the calendar,[100] or for the unpredictable duration of some state of affairs.[101] In such cases, it would seem that any equity which may have arisen will simply lapse with the arrangement. As Lord Tucker said in *TMMC*: "[T]here are some cases where the period of suspension clearly terminates on the happening of a certain event or the cessation of a previously existing state of affairs or the lapse of a reasonable period thereafter. In such cases no intimation or notice of any kind may be necessary."[102] However, even while the arrangement is still afoot, the equity envisaged by the *Hughes* doctrine does not make it irrevocable in principle. The arrangement may have granted a period of grace, or allowed a new mode of performance, but it is non-contractual and therefore the time and mode specified by the original obligation still persist in law. Either party may demand a return to the original terms by giving the appropriate notice and on the understanding that equity will not allow the other side to suffer lasting prejudice from the combined effect of the obligee's

97. See *Je Maintiendrai Pty Ltd v Quaglia* supra n 1.
98. Supra n 63, 13.
99. See also G C Cheshire and C H S Fifoot "*Central London Property Trust Ltd v High Trees House Ltd*" (1947) 63 LQR 283, 299.
100. *Barns* supra n 16.
101. *Electronic Industries* supra n 9.
102. Supra n 32, 785.

forbearance followed by his change of mind. The kind of notice equity requires has been examined closely by the English courts.

In *TE Co*, Justice Devlin dealt as follows with the question of notice:

> I ... hold that it was a temporary arrangement which was made subject to the right of the [T Co] to terminate by giving reasonable notice. I should regard the presentation of a new agreement ... as amounting to a reasonable notice. I do not think that in this type of case it is necessary that the notice should be express ... all that is necessary ... is that the notice should be such as to put an ordinary person clearly in mind that the other party is going to resume his strict rights.[103]

Although the Court of Appeal considered an express notice necessary[104] (and reversed Justice Devlin's judgment accordingly), it is submitted that Justice Devlin's statement of principle (see the last sentence quoted) survived intact the decision of the Court of Appeal and the decision of the House of Lords in the sequential case.[105] In *TE Co* the Court of Appeal required an express notice, not on principle, but merely because it was thought reasonable in the special circumstances of the case. The decision of the House in *TMMC*[106] accords in substance with Justice Devlin's dictum: their Lordships affirmed the same kind of flexible approach. Lord Tucker stated: "[I]t has never been decided that in every case notice should be given before a temporary concession ceases to operate ... Still less has any case decided that where notice is necessary it must take a particular form."[107] On the issue of forbearance the decision of the House adds little to TE Co;[108] the only true addition in point of principle was the rejection of TE Co's argument that, to terminate the forbearance arrangement, T Co should (either on principle or in the special circumstances) have served upon TE Co a dated notice, that is, a notice which specified a reasonable period after which the compensation claim would be re-asserted. Instead the House considered that, once sufficient notice had been served, T Co's rights would revive after a reasonable period of time. The length of that period must depend on all the circumstances, particularly upon the time required by the obligor to re-adjust his position.

103. Supra n 91, 111.
104. See ibid, observations by Somervell LJ, 115 and by Cohen LJ, 116.
105. *TMMC* supra n 32.
106. Ibid.
107. Ibid, 799.
108. The House was bound by the principle of issue estoppel to assume that the *Hughes* doctrine was applicable: see ibid observations by Lord Tucker 783 onwards, and by Lord Cohen, 799.

Although the House did not require it in *TMMC*, a dated notice may nevertheless prove necessary in some circumstances. In *Charles Rickards Ltd v Oppenhaim*,[109] the plaintiffs agreed to build a car body for the defendant "within six, or at the most, seven months", time being of the essence of the contract. The plaintiffs took fourteen months instead and demanded payment, arguing that in view of certain difficulties, they had done the work within a reasonable time. It was common ground that the original "essential" time had been waived since the defendant had demanded speedy completion after the original deadline had passed. However, the Court of Appeal rejected the plaintiff's argument that, after such forbearance, the defendant could demand no more than to have the work done within a reasonable time. As Lord Justice Singleton stated: "... in such a case the person ordering the work has the right ... to say, 'I will not accept the work unless you deliver it within a certain time' - which must be a reasonable time."[110] Thus the defendant was able by a dated notice setting another reasonable deadline to make time again of the essence, and this he had done.[111] Hence, the action failed. The rule in this case has been restated and/or applied by Australian courts.[112]

F. Forbearance Arrangements After Default

A contract-breaker can hardly be as confident of assistance from a court of equity as could a party without such a blemished record.[113] Indeed, the first reaction of the English Court of Appeal, only two years after *Hughes*, was against an extension of the *Hughes* doctrine to protect obligors in default. In *Williams v Stern*[114] the plaintiff had mortgaged property to the defendant and had defaulted with repayment of an instalment of the money owing, triggering an acceleration clause which caused the balance of the debt to fall due immediately, as well as the associated power in the defendant to affect an immediate sale of the mortgaged property. The plaintiff then explained his difficulties (and their temporary nature) and was given an assurance by the defendant that he would forbear from any forced sale for a specified period. Before this grace period had passed, and without any warning, the defendant

109. [1950] 1 KB 616.
110. Ibid, 628.
111. For factual details, see ibid, 618.
112. The rule was first stated by Jordan CJ in *Luna Park (NSW) Ltd v Trammways Advertising Pty Ltd* (1938) 38 SR(NSW) 632, 644. It was applied in *Carr v JA Berriman Pty Ltd* (1953) 89 CLR 327.
113. See observations by Taylor J in *Tallerman* supra n 7, 147.
114. (1879) LR 5 QBD 409.

resiled from his assurance, sold the property and received an inadequate price for it. The plaintiff claimed, as damages, the difference between the price and the true value of the property. He sought to establish the wrongfulness of the sale by relying upon the *Hughes* doctrine: "The promise of the defendant to wait for a week was a suspension of his right to seize: *Hughes v Metropolitan Ry Co...*"[115] The Court insisted upon an orthodox analysis of the forbearance arrangement. Lord Justice Bramwell stated:

> It has been argued for the plaintiff that after the defendant had promised to wait for a week, he could not lawfully seize the plaintiff's goods: but I do not think that his promise was sufficient to prevent him from putting in force the powers of the bill of sale: it was not an undertaking which bound him: the promise was not supported by any consideration.[116]

It seems unfortunate that the Court failed to give more careful attention to the equitable aspect of the plaintiff's argument. Only Lord Justice Cotton referred (at least impliedly) to the *Hughes* doctrine:

> Then is there anything in equity which would make the sale wrongful? I think not. There was no representation of fact which prevented the plaintiff from doing something which he would otherwise not have done, and by which he was misled. There is no evidence that the plaintiff abstained from doing anything which he would or could otherwise have done.[117]

The facts in *Barns*[118] were indistinguishable in principle from those in *Williams v Stern*.[119] Speaking for the High Court, Chief Justice Griffith acknowledged the operation of the *Hughes* doctrine in cases of forbearance before breach: "If the acts set up as showing waiver occur before actual default, the party is induced to abstain from taking steps to prevent the default from happening, which abstention, if the strict terms of the contract were adhered to, would or might operate to his prejudice."[120] The fact that the doctrine will suspend temporarily the operation of contractual terms in such a situation was taken for granted by the Court. The learned Chief Justice defined the major issue of the case: "The [defendant] contended that this doctrine [stated by the Lord Chancellor Lord Cairns] has no application to a

115. Ibid, 412.
116. Ibid.
117. The passage is taken from (1879) 49 LJQB 663, 665. This report seems to be the most reliable. It is the only one which makes clear the crucial fact that the forbearance arrangement was made two days after the plaintiff defaulted - ibid, 664.
118. Supra n 16.
119. See the statement of the facts of *Williams v Stern*, supra n 116.
120. Supra n 16, 939.

case where the default has already been committed."[121] Having pointed out that Lord Cairns' statement provided little guidance on the specific problem before the Court,[122] Chief Justice Griffith set out, in terms betraying doubt and hesitation, the inclination of the High Court:

> We are by no means satisfied that the doctrine stated by Lord Cairns is limited to cases in which the so-called waiver takes place before the occurrence of actual default. In reason, the unfairness to the party who is induced to suppose that the strict rights of the other party will not be enforced is just as likely to occur in one case as in the other.[123]

It was clear to the Court that the *Hughes* doctrine would only be applied if the defendant's assurance had caused the plaintiff to alter his position. Although the evidence was scanty, the High Court was willing to infer[124] that the defendant's assurance had induced the plaintiff to refrain from taking steps which would have saved his property.[125] The Court inclined to the view that this inference brought the case within the *Hughes* doctrine.

The value of *Barns* as a precedent is impaired by uncertainty of reasoning and by reliance, as alternatives to the *Hughes* doctrine, upon principles of doubtful applicability. Possibly in an attempt to distinguish the case before him from *Williams v Stern*, Chief Justice Griffith insisted upon pinning the label "consideration" upon the plaintiff's failure (induced by the defendant's assurance) to save his property.[126] Moreover, his Honour argued that estoppel *in pais* could be applied when both parties had arranged to treat the defendant's formal demand for payment (a prerequisite to the plaintiff's default) as non-existent.[127]

It is submitted that the courts should follow the High Court's inclination in *Barns* and apply the *Hughes* doctrine to absolute obligations such as debts and to forbearance after breach or default. Breach need not be culpable and

121. The argument of counsel is reported as follows (Ibid, 929): "... a default which has already arisen cannot be waived without consideration; ... a default ... has created new rights."
122. "The language of the Lord Chancellor is not in terms limited to the case where the negotiations precede default, but it must, no doubt, be read with reference to the facts with which he was dealing" (ibid, 938). As pointed out earlier, the forbearance arrangement in *Hughes* preceded default.
123. Ibid, 938.
124. Ibid, 939.
125. In *Williams v Stern* the Court of Appeal saw no room for any such inference, but the state of the evidence does not seem to have been very different from that in *Barns*.
126. Ibid, 938 onwards.
127. In *Thompson v Palmer* (1933) 49 CLR 507, 547 Dixon J appears to have hinted at the possibility of estoppel arising from facts which the parties make the "conventional basis" of their relations. Whether this applies when the parties know the agreed facts to be untrue must be doubtful.

contract-breakers should not be debarred in principle from the help of equity. Breach may be merely technical, legally uncertain or insufficiently related to that part of the obligation which is affected by the obligee's forbearance. Breach can raise complicated factual issues which would add cost and expense to litigation concerned with the effects of forbearance. Equity is best served if the *Hughes* doctrine is applied, and the fact of breach is regarded as one of the determinants in assessing the extent to which equity will help the obligor.

G. The *Hughes* Doctrine: Abrogation of Substantive Rights?

The forbearance arrangement in *TE Co*[128] was found by the trial judge to have been so vague and informal, so much a matter of mere forbearance rather than variation of contract, that, at common law, it left all the strict legal rights under the original contract (including the right to compensation) fully intact. Although the Court of Appeal declined to enforce payment of some of the compensation, that might have been only because T Co claimed that it was payable *exactly at the time and in the manner* stipulated in the original contract. Whether compensation, for the period for which it was claimed by T Co, might have been enforced with much more ample notice (say five years), remained strictly an open issue, just as the recoverability of all the compensation which fell due and remained unpaid during the war was not determined. TE Co obviously would have wanted to be relieved of such a crushing liability, but, if the *Hughes* doctrine could never do more than adjust the mode and manner of performance, as distinct from its *quantum* and extent, TE Co would have had to pay eventually.

Had T Co tried to claim all the unpaid compensation, TE Co might have raised laches or the Statute of Limitation, but, depending on the circumstances, these defences might have been of no avail. On the other hand, the *Hughes* doctrine, as formulated by the Privy Council in *Ajayi v R.T. Briscoe (Nigeria) Ltd*,[129] ("*Ajayi v Briscoe*") would almost certainly have been available as a complete defence. In that case Lord Hodson, in a dictum which has become widely-known and accepted, indicated that the *Hughes* doctrine deserved a limited impact upon substantive rights in special circumstances:

> [W]hen one party to a contract in the absence of fresh consideration agrees not to enforce his rights an equity will be raised in favour of the other party. This equity is,

128. Supra n 91.
129. [1964] 1 WLR 1326.

> however, subject to the qualifications (1) that the other party has altered his position, (2) that the promisor can resile from his promise on giving reasonable notice, which need not be a formal notice, giving the promisee a reasonable opportunity of resuming his position, (3) the promise only becomes final and irrevocable if the promisee cannot resume his position.[130]

It was the third part of this proposition which represented an advance upon the *Hughes* doctrine as conceived previously. As the Privy Council made clear, it was an advance which could be achieved quite independently of the acceptance or rejection of the *High Trees* principle which the Privy Council expressly and correctly perceived as quite a separate matter.[131] This extended version of the *Hughes* doctrine would have brought about a satisfactory result in our imagined variation of *TE Co.* It retains its significance despite the acceptance of promissory estoppel in recent High Court decisions and should be followed by Australian courts.

CONCLUSION

Arrangements which seek to modify a contractual performance are often arrived at in circumstances which indicate that they are not intended to be promissory and contractual but merely *de facto* concessions by one of the parties in recognition of some difficulty faced by the other. Such "forbearance arrangements" cannot be the equivalent of contractual variations of the terms, but they are not entirely without some effect both at common law and in equity.

At common law such arrangements provide the party in whose favour they are made with a lawful excuse for appropriate departures from the contractual terms. Further, they may have some modest effect, even a binding effect, insofar as they interact with the contract terms. The nature of that effect must ultimately depend upon the construction of the terms of the contract.

Equity will take note of the fact that forbearance arrangements, despite their non-contractual status, will lead to some suspension or other modification of strict rights under the contract. In general, a complete resumption of all contractual rights (by termination of the arrangement) is possible. In equity, a special doctrine (which has been called the *Hughes* doctrine in this contribution) will usually confine itself to ensuring that the process of resuming the full rights under the contract takes place in an orderly fashion

130. Ibid, 1329.
131. See observations by Lord Hodson, ibid, 1329 onwards.

and without undue hardship for either party. In special circumstances, as specified in *Ajayi v Briscoe*,[132] rights may remain permanently suspended.

The recent acceptance in Australia of a fully-fledged doctrine of promissory estoppel is to be applauded, but it has created a distinct risk that the enthusiasm which accompanies this new development will swamp the more modest and entirely appropriate legal and equitable principles which the courts have developed to support non-promissory and therefore non-contractual forbearance arrangements, and will lead to such arrangements being given an undeserved and inappropriate status.

Legione v Hateley[133] and *Waltons Stores v Maher*[134] have created new problems of delimitation. As explained earlier,[135] the concessions involved in forbearance arrangements are not normally intended to be promissory or legally binding. However, cases can readily occur in which the request for a unilateral forbearance meets with an unusually enthusiastic response which is either expressly promissory or should be interpreted as such, although other prerequisites to contract like consideration or form requirements are absent. Prior to the latest High Court developments, it would have been appropriate to say that such arrangements, being non-contractual, should also be measured exclusively by the standards established by the *Hughes* doctrine. However, it is now plainly arguable that such situations are within the competitive reach of the new promissory estoppel. It remains to be seen how the courts will cope with such problems. Over-simplification will not provide appropriate answers. Further speculation about this problem and about other implications of the new estoppel is outside the scope of this article.

132. Supra n 129.
133. Supra n 1.
134. Supra n 1.
135. Supra Part IV.

DYASON V AUTODESK INC: COPYRIGHT PROTECTION FOR COMPUTER SOFTWARE IN THE 1990s

MARSHALL McKENNA*

Intellectual property law, while not strictly a new area of law, is undergoing what might be described as a renaissance. This area of law includes copyright, designs, patents, trade marks and confidentiality of information. The burgeoning of this area of practice is to an extent a direct result of contemporary development of novel technologies, especially those relating to computers[1] and bio-technology.[2]

Copyright is no stranger to new applications. Originally, copyright operated only in respect of manuscripts.[3] It was later expanded to cover artistic, musical and dramatic works.[4] More recently copyright legislation has been extended to cinematography and radio and television broadcasts.[5] Additionally, the rights of performers are now subsumed under copyright.[6]

However, the application of the law of copyright to protect the rights of creators of computer software has occasioned difficulty. In *Computer Edge Pty Ltd v Apple Computer Inc*[7] ("*Computer Edge*") the High Court held that

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1. See P De Jersey *Protection of Computer Programs: The Current Position* (1988) 62 ALJ 255.
2. See eg N Byrne *Intellectual Property Law and Bio-technology: Some Recent Developments in European Law* (1991) 12 Intellectual Property Forum 4.
3. See generally J Lahore *Intellectual Property in Australia: Copyright Law* (Sydney: Butterworths, 1988) 1856-1861; S Ricketson *The Law of Intellectual Property* (Sydney: Law Book Company, 1984) 57-65.
4. See generally Lahore ibid, 1873-1876; Ricketson ibid, 73-76.
5. Copyright Act 1968 (Cth) ("Copyright Act") ss 89-91.
6. Ibid, Pt XIA. This part was inserted by the Copyright Amendment Act 1989 (Cth) s 28 and proclaimed to commence as recently as 1 October 1989 (Gaz S 316, 29 September 1989).
7. (1986) 161 CLR 171.

computer programs in a material form, meaning a tangible and readable form, were capable of copyright protection. In contrast, programs reduced to intangible form, not perceivable by human senses, such as on a computer disk, could not be so protected.

The legislature had reacted to the first instance decision in *Computer Edge*[8] with the Commonwealth Copyright Amendment Act 1984.[9] This Act was intended to make it clear that computer programs were capable of copyright protection. The Full Court of the Federal Court has recently had cause to consider the confrontation of computer technology and copyright law in the case of *Dyason v Autodesk Inc*[10] ("*Dyason*"). This case is the first to confront the impact of the 1984 legislative intervention to extend copyright protection to computer programs.

FACTUAL BACKGROUND

Dyason involved a commercial decision on the part of Autodesk Inc ("Autodesk") to protect its investment in the development of a computer program.[11] The program in question, AutoCAD, is a complex computer assisted drafting package, apparently quite popular with architectural and engineering businesses. Unfortunately for Autodesk it is far easier, and less resource intensive, to copy a disk than it is to develop the program that resides on the disk. As a consequence Autodesk sought a way to prevent their programs being used without their consent. Thus was born the AutoCAD Lock ("the Lock").

Very basically, the Lock was a hardware device which attached to the computer upon which the AutoCAD program was going to be used. The functional activity of the Lock depended on its actual physical structure. It was not programmable in any normal sense of that term.[12] The Lock functioned by interacting with the AutoCAD program when it was being used. Specifically, the program sent signals to the Lock which returned an appropriate signal. If the program failed to receive the appurtenant response, as would happen if a Lock was not fitted to the computer, it would cease to

8. *Apple Computer Inc v Computer Edge Pty Ltd* (1983) 50 ALR 581 Beaumont J.
9. See S Stern *Computer Software Protection After the 1984 Copyright Statutory Amendments* (1986) 60 ALJ 333; supra n 1.
10. (1990) 96 ALR 57. This case is an appeal from the decision of Northrop J in *Autodesk Inc v Dyason* ("*Autodesk*") (1989) 15 IPR 1.
11. *Dyason* ibid, Sheppard J, 68.
12. *Autodesk* supra n 10, Northrop J, 21.

function. Thus, the ability to use the AutoCAD program depended on the presence of the Lock. This is conveniently summarised in the findings of the trial judge:

> The AutoCAD lock was designed, produced and sold for one purpose only, namely to limit the use of the AutoCAD program. The program could be run if, and only if, the lock was in position and operating effectively.... Copies of the program could be made but, in the absence of the lock, those copies could not be run.[13]

By making the use of their AutoCAD program dependant on the presence of the Lock, Autodesk felt confident that they could adequately protect their investment in the development of the program.

The third appellant, Kelly, was an electronics designer who worked for Assco Vic Pty Ltd ("Assco"), a company dealing in computer equipment and programs for business and professional use. One of the programs Assco dealt with was AutoCAD. Kelly, intending to market computer equipment and programs, obtained experience in Assco's business. As part of this he familiarised himself with the function of the AutoCAD program.

Kelly became interested to find out how the Lock worked. He discovered the signalling function of the program and Lock through the use of electronic monitoring equipment. What he discovered was a sequence of signals from the program and replies from the Lock which did not follow any obvious pattern. With other electronic equipment he was able to ascertain a system from these apparently random signals. At no stage did Kelly ever look inside a Lock. He was at all times ignorant of how the Lock formulated its reply to the programs challenge. To use the words of Justice Northrop:

> [W]ithout knowing how the AutoCAD lock worked, Mr Kelly broke the code on which it operated even though the method was different to that used by the lock.[14]

Equipped with this information Kelly made a prototype device which could be used as a substitute for the Lock. This was called the Auto-Key lock ("the Key"). The Key was marketed by friends of Kelly, Christie Dyason and her husband, Martin Dyason. It was accepted that the appellants acted in good faith at all times in consequence of legal advice to the effect that they were entitled to develop and commercialise the Key.[15]

13. Ibid, 6.
14. Ibid, 7.
15. Ibid, 7-8.

The function of the Lock and the Key is precisely congruent. Both the Key and the Lock existed only to receive signals from the active AutoCAD program and respond to these challenges. Neither the Lock nor the Key have any other function or possible use other than allowing the AutoCAD program to operate.

However, the mode of operation of the devices is entirely different. The Lock is a hard wired shift register. The Key is a program embodied on an Erasable Programable Read Only Memory silicon chip ("EPROM"). In simple terms the Lock is an item of hardware, its function is entirely dependent on the physical interaction of its component circuitry whereas, in contrast, the Key is a program contained on a silicon chip. The Lock produces responses from a predetermined register by "shifting" one place along the register each time it makes a response. The Key does the same thing only by analogy, its responses being determined by the program embodied in the EPROM chip. Plainly, the only point of similarity in the two devices was their ultimate function.[16]

ISSUES UNDERLYING THE *DYASON* DECISION

The action brought by Autodesk was basically for infringement of copyright subsisting in the Lock. Copyright protects works of literary, musical, artistic or dramatic nature,[17] sound recordings,[18] films,[19] radio and television broadcasts,[20] published editions of works[21] and rights of performers.[22] Computer programs are protected as literary works under the current legislation in Australia.[23]

It is the sole prerogative of the holder of copyright in a literary work to reproduce it in material form.[24] However, this right is subject to the limitation that only the form of expression of the work will be protected. Copyright will not protect the content by itself. It is not possible to acquire a proprietary right in an idea by way of copyright.[25]

16. *Dyason* supra n 10, Lockhart J, 66.
17. Supra n 5, s 32(1).
18. Ibid, s 89.
19. Ibid, s 90.
20. Ibid, s 91.
21. Ibid, s 92.
22. Ibid, s 248G.
23. Ibid, s 10(1) ("literary work" and "computer program"). See also Stern supra n 9.
24. Ibid, s 31(1)(i).
25. *Dyason* supra n 10, Lockhart J, 58; *L.B. (Plastics) Ltd v Swish Products Ltd* [1979] RPC 551 Lord Hailsham, 629.

To establish that a literary work has been copied it must first be established that it is a "work" within the meaning of the Act. Hence, copyright must be able to subsist in a work before any protection arises. The *Dyason* case is the first to construe the meaning of "literary work" since that definition was amended to specifically include computer programs.[26] The relevant definitions from the Act requiring delineation by the court were:

> "literary work" includes:
>
> (a) ...
>
> (b) a computer program or compilation of computer programs;[27]

and

> "computer program" means an expression, in any language, code or notation, of a set of instructions (whether with or without related information) intended, either directly or after either or both of the following:
>
> (a) conversion to another language, code or notation;
>
> (b) reproduction in a different material form;
>
> to cause a device having digital information processing capabilities to perform a particular function;[28]

Moreover, in order to infringe copyright, a copy of a work must be "objectively similar" to the original work. The court must decide whether an alleged "copy" is a creative work in its own right or a substantial reproduction of a novel work.

Autodesk cross-appealed alleging that Kelly and the Dyasons had, in supplying the Key, authorised infringing reproduction of the AutoCAD program itself. This argument was novel in that the reproductions allegedly authorised occurred when the program was loaded into the computer's RAM or transient memory and used.

Thus, the issues that the Court was required to resolve were firstly, whether copyright could subsist in the Lock. This required that the lock be a "computer program" within the meaning of the Act. If so, whether the Key had infringed the copyright in the Lock. Finally, whether supply of the Key had authorised reproduction of the AutoCAD program by way of being

26. The definition of "literary work" was amended to expressly incorporate computer programs following supra n 8 in which it was held that computer programs were not literary works. See Stern supra n 9.
27. Supra n 5, s 10(1).
28. Ibid.

loaded into RAM. This raised a subsidiary but important issue as to whether loading and using a computer program constituted a reproduction of that program.

COMPUTER PROGRAM

At first instance, Justice Northrop held that the Lock was of itself a computer program within the meaning of the Act. Hence, copyright could subsist in such an item. However, this was not a necessary finding. The Lock was not a program in the normally understood sense of the term.[29] A program represents instructions to a computer which direct its function. It is in the nature of programs that they exist only transiently in a computer.[30] In contrast, the "program" embodied in the lock was an invariable incident of its circuitry. It was permanent and immutable.

The Full Court did not concur with the view of the trial judge. Justice Lockhart considered that the definition of "computer program" referred to a functional entity whose sole purpose is to make a piece of electronic equipment function in a particular way.[31]

Justice Sheppard, with whom Justice Lockhart concurred, held that the lock was not in itself a program. It interacted with the program, Widget C, which had an interpretative or digital processing role. Thus, the Lock with Widget C constituted an integrated system which had the characteristics of a computer program.[32]

The question as to what constitutes a computer program was most fully addressed by Justice Beaumont who, ironically, did not decide the point. He merely assumed without deciding that the Lock in conjunction with the Widget C program constituted a computer program.[33] In contrast, his Honour could not accept that the Lock, regarded in isolation, was itself a computer program.[34]

Referring to Hansard, his Honour noted that the legislation was clearly not meant to protect an abstract idea but rather a particular expression of that

29. *Autodesk* supra n 10, 21.
30. See generally A L Clapes *Software, Copyright, & Competition: The 'Look and Feel' of the Law* (New York: Quorum Books, 1989) Ch 2.
31. *Dyason* supra n 10, 58.
32. Ibid Sheppard J, 78; Lockhart J, 61.
33. Ibid, 105.
34. Ibid.

abstraction.[35] Further, he spelt out his interpretation of "computer program", emphasising key concepts, to be:

(a) an *expression*, in any language, code or notation, *of*

(b) *a set of instructions* (that is to say, orders or directions ... which cause a computer to perform some specified action) (whether with or without related information) *intended*, after either or both of:

(i) conversion to another language, code or notation

(ii) reproduction in a different material form (that is in relation to a work, or an adaptation of a work, any form of storage from which the work, or adaptation, or a substantial part thereof, can be reproduced)

(c) *To cause a device* (that is, a contrivance) having *digital* (that is, of or pertaining to information represented by patterns made up from qualities existing in two states only, on and off, as pulses) *information processing capabilities* (that is, having the ability to manipulate data in order to abstract the required information)

(d) *To perform a particular function* (that is, any basic computer operation).[36]

However, this annotation of the definition while clarifying some issues merely raises others. Neither "contrivance" nor "basic computer operation" is any more susceptible to precise application than "device" or "function".

Thus, the Lock was held by the Court not to be a program. However, it is difficult to draw any wider implication of principle notwithstanding the exegesis of the statute by Justice Beaumont. At most, it appears that "computer program" does not extend to all devices necessary for a computer to function.

INFRINGEMENT

While copyright did not subsist in the Lock in isolation, it did subsist in the integrated system involving the Lock and Widget C. Therefore, copying the Lock could infringe the copyright in this overall program.

The trial judge considered the reference to function in the definition of "computer program" to be of overwhelming importance:

> On the facts of this case a finding has been made that the AutoCAD lock and the Auto-Key lock each constitutes a computer program under the Copyright Act and thus each is itself a literary work under that Act. In this context, regard must be had to the function of the computer program in determining resemblance. Physical appearance is immaterial. The hardware or physical equipment within which the expressions of the sets of

35. Ibid, 101.
36. Ibid, 103.

> instructions are contained is immaterial. The fact that Mr Kelly did not see ... the internal mechanisms of the AutoCAD lock, are immaterial. Mr Kelly knew of the function of the AutoCAD lock, he discovered how it performed that function, and prepared the expression for his own set of instructions for the Auto-Key lock to enable it to perform the identical function. This constitutes the resemblance between the two computer programs.[37]

This statement of the law is superficially attractive in that it removes the difficulties inherent in examining form of expression in a complex and intricate technical area. Moreover, it prevents colourable departure by the copyist from the form of expression utilised by the author. However, the simplicity in examination of function fundamentally alters the basis of copyright protection.[38]

The Full Court rejected the trial judge's elevation of function to the status of an entity capable of protection. Without objective similarity there could be no infringing reproduction.

Justice Lockhart agreed that function was an important factor in terms of the relevant subject matter and that the functions of the Lock and the Key were coterminous. However, he rejected function as a primary determinant of reproduction.[39] He held that the composition of the devices was different.[40] Likewise, the algorithms ("the procedures for solving the particular problem in a finite number of steps") and implementation of their function was disparate.[41]

In a similar vein Justice Sheppard considered that Kelly did not copy the work in which copyright subsisted. Kelly merely observed and replicated the function of that work.[42] Copyright protection in his Honour's view is limited to form of expression. It does not extend to function.[43]

Justice Beaumont considered that there was no infringement by reproduction or adaptation. The algorithms and implementations of the devices were different and thus could be neither objectively similar in respect of reproduction nor a version for the purpose of demonstrating adaptation.[44]

37. *Autodesk* supra n 10, 28.
38. See G Greenleaf "Software copyright - form follows function, OK?" (1989) 63 ALJ 764.
39. *Dyason* supra n 10, 64.
40. Ibid.
41. Ibid.
42. Ibid, 78.
43. Ibid, 81-82.
44. Ibid, 105-106.

In relation to the question of adaptation Justice Lockhart considered that this concept prohibits generation of versions of a copyright work.[45] However, such prohibition does not go so far as to apply to different modes of implementation:

> There are indicia within the definition of 'adaptation' itself which demonstrate that a work may be an adaptation of another work notwithstanding considerable differences between the two works. Indeed, the word 'version', meaning a variant of something, necessarily requires that there be change or variation. Though it goes too far to say that something is a version of another thing if the two are essentially different.[46]

Likewise, Justices Sheppard and Beaumont separately considered that the Lock and the Key used different algorithms. This did not constitute a variant but a completely different mode of implementing a function.[47]

The major fault with the decision of Justice Northrop was the elevation of function to the entity in which copyright subsisted. The Full Court rejected this proposition, reducing copyright protection to what it ought to be, preservation of rights in expression rather than ideas.

AUTHORISATION

Autodesk, by way of cross-appeal, contended that loading the AutoCAD program into a computer to run it was a reproduction or adaptation of the program. The provision of the Key to allow the running of such infringing programs was an authorisation under the Copyright Act. Thus, it was asserted that a program loaded into a computer's RAM was a reproduction of the program and such reproduction was limited by an implied term that it would only occur in the presence of the Lock.

Justice Sheppard, with whom Justice Lockhart agreed, expressed the opinion that the purchasers were told that they could make copies of the program for their convenience but that they could only run one program at a time. The limitation was effected by the practical requirement that the Lock be present to run the program.[48] His Honour was clearly of the opinion that

45. Ibid, 64.
46. Ibid, 65.
47. Ibid Sheppard J, 83; Beaumont J, 105-106.
48. Ibid, 84.

the authorisation to copy the program was given by Autodesk itself, considering such a licence amounted to an invitation.[49] His Honour summarised the plight of Autodesk:

> The problem which confronts Autodesk is that both the copying of the program on to other floppy disks and the copying of it on to hard disks inside computers were acts authorised by it. The terms of the licence upon which it relies expressly provided for this to be done.[50]

The Lock merely facilitated the use of copied programs. Use of the program was not governed by the software agreement. His Honour did not consider any implied term that the program only be used in conjunction with the Lock ought to be implied.[51] The judgment of Justice Beaumont was coterminous with that of Justice Sheppard.[52] Additionally, his Honour considered that there was no express limitation on the use of the program and there was no justification for the implication of such a restriction.[53]

In effect Autodesk created a means of limiting the use of their program. They then generously allowed purchasers to copy the program, secure in the knowledge that it could not be used in the absence of the Lock. Essentially, Autodesk has been hoist by its own petard. The difficulties they face are in a large part due to the liberal licence agreement they framed.

As to whether the loading of a program into computer RAM constituted a reproduction of a program, Justice Sheppard was quite definite that it did not constitute either a reproduction or an adaptation of such a program.[54] Justice Beaumont did not decide this point but strongly favoured the view that using a program did not involve reproduction or adaptation of the work.[55] In contrast, Justice Lockhart considered that the question did not need to be decided as Autodesk had authorised such reproduction in any case. His view was that the question ought to be left open.[56]

The transition of a computer program from a stored form on a computer disk, whether floppy or hard, to an active state within a computer cannot be a reproduction. The computer is electronically using the information located on the disk to perform a function. It is at this stage that a program is transformed from a literary work to an active functional entity. Additionally,

49. Ibid, 88.
50. Ibid, 91.
51. Ibid, 89.
52. Ibid, 111.
53. Ibid, 112.
54. Ibid, 87.
55. Ibid, 111.
56. Ibid, 66.

it ought to be clear that the purpose of a computer program is to use it. For this reason any such reproduction, if it be that, would impliedly be licensed as a necessary consequence of sale of the program.

PROTECTING SOFTWARE

In the result the decision in *Dyason* might be viewed as a failure of legislation to protect adequately a legitimate interest. Autodesk has a right to receive the benefit of its research and developmental expenditure on AutoCAD. That benefit is threatened by commercial availability of the Key at one tenth the effective price of a Lock.

However, the real failure is that of Autodesk in the exploitation of its potential rights. The Key does not infringe whatever copyright subsists in the Lock. Neither does supply of the Key authorise a breach of the software licence agreement. However, supply of the Key could have authorised a breach of the software licence agreement if that contract expressly provided either that only one copy of the program was to be used at one time or, preferably, that the program was only to be used in conjunction with a Lock. Supply of a Key in those instances would give rise to a strong inference that provision of the Key assisted breach of the licence.

The best course would be to limit a purchaser's ability to make copies of the main program. Ideally, the only copies allowed ought to be for security back-up purposes or one installation on a hard-disk within the computer. Back-up copies ought not to be used except on destruction of the original disks or the programs on them. If a hard-disk copy is made the licence should provide that the floppy disk copy is not to be used. This would limit the problems experienced by Autodesk in relation to authorisation.

It is difficult to see how alternate forms of protection suggested by Justice Beaumont[57] would salve Autodesk's position. His Honour was clearly referring to the potential for patent protection. The dual availability of copyright and patent protection for computer programs is supported both judicially[58] and academically.[59] However, as a matter of practice the Patent

57. Ibid, 106.
58. Supra n 8, 591; supra n 7 Deane J, 215-216. See also *Burroughs Corporation (Perkin's) Application* [1974] RPC 147 Graham J, 161; *International Business Machines' Corporation's Application* [1980] 6 FSR 564 Whitford J, 569; *Merryl Lynch Inc's Application* [1988] RPC 1.
59. DA Einhorn *Copyright and Patent Protection for Computer Software: Are they mutually exclusive* (1990) 30 IDEA, The Journal of Law and Technology 265.

Office does not accept computer programs and computers modified to operate according to particular programs as patentable.[60] Moreover, there is "general international agreement that computer software protection should be achieved by copyright laws rather than any other legal device."[61]

While patent protection is apposite to software in the sense that it empowers the patentee to restrict use of his invention[62] such a limitation could have been imposed by the use of a differently drafted licence agreement. Additionally, resort to patent protection is inappropriate in that award of patent protection requires novelty and invention. Thus, patents will not be available for most computer software as the bulk of programs involve evolutionary improvement or variation on a theme. Moreover, devices such as the Lock are almost certainly not inventive solutions to the problem of restricting use of software.

Copyright law, on the other hand, is quite flexible in its application to computer software. In the United States it has been recognised that where there are various possible techniques of achieving a single utilitarian purpose then the underlying idea will be separate from its expression. Thus, where the particular expression used is not necessary to the implementation of a concept then such expression is capable of protection, even to the extent of the overall structure of a program.[63]

In *Broderbund Software Inc v Union World Inc*[64] the "look and feel" of a particular program was held to be capable of copyright protection on the basis that it was not a unique way of attaining a specific object. Thus, the structure and expression of the way in which information was presented to the user is capable of protection under copyright legislation.

60. See *NV Philips' Application* (1966) 36 AOJP 2392; *Texas Instruments Company's Application* (1968) 38 AOJP 2846.
61. G Dworkin "The Patentability of Computer Software" in C Reed (ed) *Computer Law* (London: Blackstone Press Ltd, 1990) 108.
62. Patents Act 1952 (Cth) s 69; Patents Act 1990 (Cth) s 13.
63. *Wheelan Associates Inc v Jaslow Dental Laboratory Inc* (1986) 797 F 2d 1222; compare with *Plains Cotton Co-operative Association of Lubrock Texas v Goodpasture Computer Service Inc* (1987) 807 F 2d 1256.
64. (1987) 7 IPR 193.

CONCLUSION

Dyason represents a simple problem obfuscated by the technical complexity of the subject matter. In reality the failure to protect the Lock and ultimately the AutoCAD program itself lies in the hands of Autodesk. It appears they were too confident of the practical efficacy of the Lock in protection of unsanctioned use.

However, while copyright protection is theoretically adequate to protect the investment represented by commercial software it is undeniable that a pirate industry is an actual problem. As with sound recordings, computer software is, in general, simple to copy. However, imposition of a royalty on blank disks as is levied on blank tapes[65] would not be a practical solution. Computer software is rather more expensive than recordings, making levies uneconomic. Additionally, blank disks are often used legitimately.

The practical answer lies in more careful formulation of software licencing agreements. This would allow persons authorising breaches of copyright and licence agreements to be targeted more easily by making breaches more identifiable. Copyright is as adequate as other mooted forms of protection. Much of the responsibility for protecting software must in future be borne by those who draft licence agreements.

65. Supra n 5, ss 135ZZN-135ZZT.