

IN THE PRIVY COUNCIL

No. 10 of 1978

O N A P P E A LFROM THE SUPREME COURT OF NEW SOUTH WALES
COMMON LAW DIVISIONB E T W E E N :SOUTH COAST BASALT PTY. LIMITED and
PIONEER CONCRETE (N.S.W.) PTY. LIMITEDAppellants

- and -

10 R.W. MILLER & CO. PTY. LIMITED

RespondentsA N D B E T W E E N :

HETHKING STEAMSHIPS PTY. LTD.

Appellants
(First Cross-
Defendants)

- and -

R.W. MILLER & CO. PTY. LIMITED

Respondents
(Cross-
Claimant)

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(Consolidated by order dated 22nd September
1977)CASE FOR THE APPELLANTS
SOUTH COAST BASALT PTY. LIMITED and
PIONEER CONCRETE (N.S.W.) PTY. LIMITEDRECORDHISTORY OF PROCEEDINGS

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1. This is an appeal from an order of the Supreme Court of New South Wales, Common Law Division and Commercial List (Yeldham J.) made on 1st July 1977 when His Honour entered a verdict and judgment for the Plaintiff in the sum of \$A163,408.16. The appeal is by the Plaintiffs and it is against that part of the decision whereby the learned Judge held that neither Plaintiff was entitled to recover damages arising out of loss sustained by the second Plaintiffs.

Vol.2 pp.697/9

Vol.2 pp.625/
654

RECORD

THE FACTS

Vol.1 p.122
1.40
p.123 1.7
Vol. 2 p. 534

2. South Coast Basalt and Pioneer N.S.W. are co-subsidiaries of Pioneer Concrete Services Limited. South Coast Basalt operates a quarry at Bass Point, slightly south of Sydney. The basalt or aggregate as it is known from the quarry is used in the manufacture of concrete. South Coast Basalt sells its aggregate partly to Pioneer N.S.W., which manufactures concrete, and partly to purchasers which are unassociated companies and include Marley Ready Mixed Concrete Limited ("Marley"), which also manufactures concrete. The aggregate is shipped from Bass Point to Blackwattle Bay, an inner Sydney industrial waterfront suburb, where it is unloaded by conveyor belts and conveyed into large bins operated by South Coast Basalt. From then it is loaded either into trucks which park underneath the bins when the aggregate is sold directly (as in the sales to Marley) or by means of a further automated conveyor belt system to nearby bins from which it is mixed by Pioneer N.S.W. with other ingredients to form concrete.

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Vol.1 pp.33/36

3. Under a contract of carriage between South Coast Basalt and Miller, Miller contracted to carry aggregate from Bass Point to Blackwattle Bay (Ex. A). This contract contained a clause (21(c)) in the following terms :-

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Vol.2 pp.703/
727

Vol.2 p.720
11.39 to 44

Miller shall ensure that there is no contamination of aggregate by coal or other materials (excluding seawater) or by different sizes of aggregate from the time of loading at Bass Point until discharge onto Basalt's conveyors.

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Vol.2 p. 544

4. The ship which was used for the carriage of the relevant cargo of aggregate was chartered by Miller from Hethking Steamships Pty. Limited, joined by Miller as a cross-Defendant ("Hethking"). It had been used previously for the carriage of sugar and small quantities of sugar remained in the hold. The bilge pumping system did not work effectively and, as a result, sea-water remained in the hold and caused the sugar to contaminate the cargo of aggregate. The contamination was not known to any of the parties at the time.

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5. Sugar has a drastic effect when even the most miniscule quantities are present in a concrete mix. It acts as a "set retardent" and prevents the concrete setting in a normal manner.

6. Part of the contaminated aggregate was sold by South Coast Basalt to Marley and part of it was sold to Pioneer N.S.W. In each case it was manufactured into concrete. Both Marley and Pioneer N.S.W. sold it to numerous purchasers and, as a result, a number of very substantial claims were brought against both companies. All these claims were compromised in the sense that they were substantially accepted. South Coast Basalt accepted that it was liable to both Marley and Pioneer N.S.W. in the amounts of their respective claims. The decision of the Board of South Coast Basalt in relation to Pioneer N.S.W. was in the form of a resolution passed during the hearing.

Vol.2 p.793

THE PROCEEDINGS AND DECISION

7. South Coast Basalt and Pioneer N.S.W. accordingly sued Miller in relation to both the Marley losses and the Pioneer N.S.W. losses. The claim of South Coast Basalt was founded in contract and tort and Pioneer N.S.W.'s claim was founded in tort alone. South Coast Basalt sought to recover both the Marley losses and the Pioneer N.S.W. losses but, of course, Pioneer N.S.W. only sought to recover its own losses. As has been indicated, Miller cross-claimed under its charterparty against the owner of the vessel, Hethking.

8. His Honour found in favour of South Coast Basalt on its claims in contract but held that the damage suffered by that company was limited to the Marley claims. His Honour found against South Coast Basalt insofar as it sought to recover the Pioneer N.S.W. claims and against Pioneer N.S.W. to the extent that it sought itself to recover those claims. The Plaintiffs, in other words, succeeded on the "Marley" claims but failed on the "Pioneer N.S.W." claims. It is against this failure that the present appeal is brought.

9. It is not necessary for the purposes of this appeal to analyse the reasoning by which His Honour reached the conclusion that Miller was liable to South Coast Basalt in contract on the basis of its obligation not to contaminate the aggregate pursuant to Clause 21(c) of the agreement. The learned Judge concluded that South Coast Basalt were legally liable in contract to Marley on the

RECORD

ground that the aggregate was not fit for its purpose and accordingly the amounts paid to Marley were damages arising from Miller's breach of contract. No challenge has been made by the Defendant to this conclusion.

Vol.2 p. 654
11. 21/28

10. His Honour, however, found against Pioneer N.S.W. on its claim in tort on the basis that there was no negligence and the damage suffered by that company was too remote. He further held that South Coast Basalt could not recover the Pioneer N.S.W. losses unless it could show that it was legally liable to Pioneer N.S.W. in the amount of those losses. South Coast Basalt sought to argue that it was liable to Pioneer N.S.W. in the full amount of its losses under Sections 19(1) and 19(2) of the Sale of Goods Act 1923 (N.S.W.). These sections correspond almost exactly (for present purposes) with Sections 14(1) and 14(2) respectively of the English Sale of Goods Act prior to the 1973 amendments. His Honour held that Section 19(1) did not render South Coast Basalt liable to Pioneer N.S.W. because the relationship of the two companies was such that it was unreal to predicate that there was any reliance by the one company upon the other. In relation to Section 19(2) His Honour held that the sub-section did not render South Coast Basalt liable to Pioneer N.S.W. for two reasons: first that the sale was not a sale by description and secondly that His Honour was not satisfied that the goods were unmerchantable. Thus, on identical facts, Basalt rightly recovered damages in respect of the amount it had to pay to the unassociated manufacturer (Marley) in consequence of that company's losses but neither Plaintiff recovered the amounts which Pioneer N.S.W. lost in consequence of their manufacture. The fact that Marley was unassociated but Pioneer associated had the effect that different results were reached.

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Vol.2 p. 626
11. 21/33

Vol.2 p. 629
11. 41/45

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Vol.2 p. 637
11. 23/31

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THE ISSUES

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11. There are five issues which arise for consideration :

(A) Whether it was necessary for South Coast Basalt to be liable in law to Pioneer N.S.W. before it could recover the losses suffered by that company.

(B) Whether His Honour was in error in holding that there was insufficient "reliance" by Pioneer N.S.W. upon South Coast Basalt to found an action upon Section 19(1) of the Sale of Goods Act.

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- (C) Whether His Honour was in error in holding that the sale from South Coast Basalt to Pioneer N.S.W. was not a sale by description so as to bring the transaction within Section 19(2) of the Sale of Goods Act.
- (D) Whether His Honour was in error in failing to find that the goods were not of merchantable quality within the meaning of Section 19(2) of the Sale of Goods Act and whether, as a basis of his inferential finding, His Honour made a number of findings of primary fact which were unsupported by the evidence.
- (E) Whether His Honour was in error in finding that there was no negligence and that the damage suffered by Pioneer N.S.W. was too remote to give rise to a liability in tort.

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(A) WHETHER SOUTH COAST BASALT HAD TO SHOW LEGAL LIABILITY TO PIONEER N.S.W.

12. It is submitted for the Appellants that it was unnecessary, where both Plaintiffs were subsidiaries of a holding company, for such a test to be satisfied. It sufficed that loss had undoubtedly been sustained within the Group of which the two companies formed part. It has been held that a number of companies may be treated as a group and as a single entity for certain purposes even although, as a matter of strict law, they remain separate entities for most purposes. The Appellants refer to Harold Holdsworth & Company (Wakefield) Limited v. Caddies [1955] 1 W.L.R. 352; Merchandise Transport Limited v. British Transport Commission [1962] 2 Q.B. 173; Esso Petroleum Limited v. Mardon [1976] Q.B. 801; and D.H.N. Food Distributors Limited v. London Borough of Tower Hamlets [1976] 1 W.L.R. 852: see in particular per Lord Denning M.R. at page 860; per Goff L.J. at page 861 and per Shaw L.J. at page 867. It is submitted that as is the position in the instant case, where one member of a group of companies suffers damage in circumstances where another member of the group would have had a cause of action to recover such damage if the latter company had sustained it, the separation between the two companies ought not to prevent recovery. There are

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RECORD

many occasions in everyday commerce in which goods are purchased by one member of a group of companies and then invoiced across to another company in the group which sells them on and suffers a loss if the goods are defective. It is in accordance with common sense and the rationale of the D.H.N. case that the contracting company should be entitled to recover the losses of the other member of the group against the vendor.

13. In the alternative, South Coast Basalt resolved to pay to Pioneer N.S.W. any loss which it might sustain. In Banco de Portugal v. Waddell /1932/ A.C. 452 and James Finlay & Company v. N.B. Kwik Hoo Tong Handel Maatschappij /1929/ 1 K.B. 400, the Courts permitted Plaintiffs to recover as damages sums which they had paid to third parties to whom they were not legally liable. In the former case this was based upon the status and reputation of the Bank of Portugal in preserving confidence in the state currency and in the latter case it was based upon commercial expediency. These cases were applied by Owen J. in Wong v. Hutchison /1950/ 68 W.N. (N.S.W.) 55. In the instant case, His Honour held that in respect of the Marley claim South Coast Basalt would have been entitled to recover without regard to strict legal liability since it had acted reasonably in settling claims and its action in paying or agreeing to pay was at the time of its agreement with Miller reasonably foreseeable as liable to result from any breach thereof. There is no reason why the Plaintiffs should be bound to take a stricter view of the claim of an associated company than it is called upon to take in respect of the claim of an outside company. It is entitled to deal upon the same reasonable commercial basis, and having done so can then seek to recover from the Defendants.

14. It is thus submitted that it is not an essential pre-requisite of South Coast Basalt's claim in respect of losses suffered by Pioneer N.S.W. to show that it was legally liable to Pioneer N.S.W. in relation to such losses. It is sufficient to show that the losses had been sustained within the group following upon the contract made by South Coast Basalt with Miller or, alternatively, that South Coast Basalt had acted reasonably in determining to indemnify that company without regard to strict legal liability.

(B) SECTION 19(1) OF THE SALE OF GOODS ACT - RELIANCE

15. Section 19(1) of the Sale of Goods Act is in the following terms :

10 Where the buyer expressly or by implication makes known to the seller the particular purpose for which the goods are required so as to show that the buyer relies on the seller's skill or judgment, and the goods are of a description which it is in the course of the seller's business to supply (whether he be the manufacturer or not), there is an implied condition that the goods shall be reasonably fit for such purpose.

20 As His Honour correctly pointed out in his judgment, all the elements but one of this provision were clearly made out. South Coast Basalt certainly knew the particular purpose for which the goods were required by Pioneer N.S.W. and they were of a description which it was in the course of South Coast Basalt's business to supply. The question is whether there was any reliance of the type necessary to show that Pioneer N.S.W. relied upon South Coast Basalt's skill and judgment.

Vol.2 pp.625/
629

30 16. His Honour examined this issue. He quoted various tests for reliance laid down by the Courts in the leading cases of Cammell Laird & Co, Limited v. The Manganese Broze & Brass Co. Limited /1930/ A.C. 402; Medway Oil & Storage Co. Limited v. Silica Gel Corporation /1928/ 33 Com. Cas. 195; Ashfield Shire Council v. Dependable Motors Pty. Limited /1961/ A.C. 336; Hardwick Game Farm v. S.A.P.P.A. /1969/ 2 A.C. 31 and Ashington Piggeries Limited v. Christopher Hill Limited /1972/ A.C. 441. He concluded that there was no such reliance.

Vol.2 p. 626
1.46 to
p.629 1.45

40 17. This finding was apparently principally based upon the fact that the parties were co-subsidiaries and upon the acceptance of the Defendants' submissions that there was no freedom of choice or contract and the Pioneer N.S.W. obtained the aggregate because it was obliged to do so by virtue of its membership of the group and that South Coast Basalt supplied it for the same reason. Accordingly, so it was submitted, it was artificial to regard Section 19(1) as of any application. The other aspect relied upon was that it was contamination by the Defendants and not by South Coast Basalt which caused the damage, this not being a characteristic which lay within the sphere of a seller to detect and avoid. The only distinction between this claim and the Marley claim was that Pioneer

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Vol.2 p. 625
1.45 to p.626
1.20

RECORD

Vol.2 p. 638
11. 16/28

N.S.W. was a member of the same group and so effected its purchases within the group. Having earlier held that the losses of Pioneer N.S.W. could not be recovered by South Coast Basalt as the two companies were separate and distinct legal entities, His Honour attached importance to the relationship to distinguish it from the otherwise identical Marley claim. The Appellants submit that, if the entities are to be considered as separate, there is no proper ground of distinction between this claim and the Marley claim. In accordance with the law as it has developed, the necessary element of reliance was present. 10

18. In Grant v. Australian Knitting Mills Limited [1936] A.C. 85 at 99, Lord Wright said :

The reliance will seldom be expressed: it will usually arise by implication from the circumstances: thus to take a case of a purchase from a retailer, the reliance will be in general inferred from the fact that a buyer goes to the shop in the confidence that the tradesman has selected his stock with skill and judgment. 20

In the present case Pioneer N.S.W. was the manufacturer of ready-mixed concrete; it purchased aggregate for that purpose and made that purpose known to South Coast Basalt, a vendor quarrymaster. This, it is submitted, gives rise to an inference of reliance no less than the other cases referred to. Indeed, Yeldham J. so held in relation to the Marley claim. Why should the situation be different between associated companies? The concrete manufacturer relies upon the quarrymaster to supply suitable aggregate to precisely the same extent in each case. In the present case, while the companies were associated, they had quite different roles in quite different areas of expertise. Moreover, if the association were relevant in any way, Pioneer N.S.W. would be deemed to have notice of the presence of Clause 21(c) in the contract between South Coast Basalt and Miller. The presence of this clause is itself a reason why Pioneer N.S.W. would rely upon South Coast Basalt because it would be entitled to assume that, by use of that clause, South Coast Basalt would be in a position to ensure that aggregate supplied to Pioneer N.S.W. would not be contaminated and that, if it was, recovery would be available against Miller. 30 40

19. For these reasons it is submitted that the warranty provided for by Section 19(1) of the 50

Sale of Goods Act was implied. It would follow that South Coast Basalt is liable to Pioneer N.S.W. in damages and accordingly that Miller is liable in damages to South Coast Basalt.

(C) SECTION 19(2) OF THE SALE OF GOODS ACT -
SALE BY DESCRIPTION

20. Section 19(2) provides :

10 Where goods are bought by description from a seller who deals in goods of that description (whether he be the manufacturer or not) there is an implied condition that the goods shall be of merchantable quality.

20 The learned Judge was satisfied that in respect of the Marley claim the sale was one by description. He found, however, that Pioneer N.S.W. did not purchase by description. Again he relied upon the distinction between the position of Pioneer N.S.W. as a member of the group from that of an outside purchaser. He stated that :

30 The true relationship between the companies was that (Pioneer N.S.W.) (as part of the overall arrangements made within the Pioneer group) received from (South Coast Basalt) such quantities of aggregate as it required this being quarried by the latter at Bass Point. It cannot be said, in my opinion, that the purchaser bought the aggregate only on condition that it conformed to the description given (a test which is set out in Sutton: The Law of Sale of Goods, 1st Edition, page 146).

Vol.2 p. 637
11. 37/48

40 The Appellants submit that there is nothing in this reasoning which prevents the sale being a sale by description. It has been said that all contracts for the sale of unascertained goods are contracts for sale by description: see Benjamin's Sale of Goods (1974) paragraph 770, and Wallace Son & Wells v. Pratt & Haines [1911] A.C. 394. In the present case the sale was within this category since, at the time of the contract of sale, the aggregate was unidentified. Even if, however, it had been identified, (as, for example, "the aggregate which has been transferred by conveyor belt to your bins")

RECORD

there would be a sale by description: see Grant v. Australian Knitting Mills Limited [1936] A.C. 85 per Lord Wright at page 100. There is no air of unreality or artificiality in saying that the officers of Pioneer N.S.W. ordered the goods by description in such a way as to show that they relied upon officers of South Coast Basalt to supply goods of that description. If, to take an extreme example, sugar rather than aggregate had come along the conveyor belts, it could have been rejected because it did not comply with the contractual description. 10

Page 2
Supplemental
Record

21. The documentation completed at the time of each sale shows that it is a sale by description. The document is exhibit D. A typical one shows the following heading :

PIONEER QUARRIES SYDNEY GROUP

A Division of Pioneer Concrete Services
Limited

Administration, 68 Grove Street, St. Peters,
N.S.W. 2044. 20

Supplied by South Coast Basalt Ltd.,
Blackwattle Bay.

The document then states the customers' name to be "P.C.N.S.W." and the product name to be "10 m.m.". This obviously refers to 10 m.m. aggregate. The goods, therefore, were supplied by description.

(D) SECTION 19(2) OF THE SALE OF GOODS ACT -
MERCHANTABILITY

Vol.2 p. 637
11. 23/27

22. His Honour determined that, notwithstanding its unfitness for use in concrete, the aggregate was merchantable. He decided that it was fit for use for purposes other than the manufacture of concrete and, accordingly, it could not be said to be unmerchantable. 30

23. It is accepted in the present case that it was impossible for a normal person to tell by inspection whether the aggregate was unfit for use in concrete. It is also accepted that, at its very lowest, the manufacture of concrete was a normal use of aggregate and that South Coast Basalt were obviously aware of the fact that this was the very use to which Pioneer N.S.W. intended to put the aggregate. The learned Judge nevertheless held, however, that the possibility of satisfactory use for other purposes, e.g., road-making, precluded a finding that in those circumstances the basalt was unmerchantable. It is submitted that the authorities 40

10 cited by the learned Judge do not support this conclusion. The Appellants submit that goods do not avoid being unmerchantable because there is a purpose for which they might be used for which they are not unfit; see Hardwick Game Farm v. S.A.P.P.A. [1969] 2 A.C. 31. It is unnecessary for a Plaintiff to negative suitability for each and every possible use regardless of what has passed between buyer and seller as to the proposed use of the goods or as to the mutual knowledge of the parties prior to the transaction. Use or purpose may be incorporated as part of the description of goods: see Cehave N.V. v. Bremer Handelsgesellschaft [1976] Q.B. 44. Moreover, the context in which merchantability is to be considered must have regard to the use which both parties to the transaction 20 knew was intended.

24. The learned Judge acknowledged that there was little argument upon this issue, and made certain findings of fact in respect of which the Appellants respectfully submit that there was no evidence, namely :

- (i) A finding that aggregate from the quarry is sold, outside the group, for use for other purposes; Vol.2 p. 636 11. 1/11
- 30 (ii) A finding that the names of some companies in the Pioneer Group suggested that their activities lay outside the field of concrete; Vol.2 p. 636 11. 11/20
- (iii) A finding that, despite contamination, it was not difficult to apprehend the use of aggregate for other purposes, e.g., filling road base, gravel shoulders on roads; there was no evidence that sucrose might not make the aggregate unsuitable for any of those purposes. Vol.2 p. 637 11. 6/22

40 The learned Judge was essentially speculating, and there cannot be an onus on the Plaintiff to negative every possible use of the material despite the fact that no evidence of such potential use is led by any party. In the instant case, there was some positive evidence to the contrary, namely, that the Plaintiffs caused contaminated aggregate to be dumped which leads to the reasonable presumption that they could not have sold it or used it for any useful purpose. This would suggest, in so far 50 as relevant, that at the prices at which it

RECORD

was sold the aggregate could be expected to be merchantable for use in concrete.

25. It is therefore submitted that the Appellants established that the goods were unmerchantable, and that the learned Judge erred both in his approach in law and in fact in determining that the goods were fit for another use and consequently merchantable.

(E) LIABILITY IN TORT

26. His Honour found that Miller owed a duty of care to Pioneer N.S.W. to take reasonable care. He held : 10

Vol.2 p. 639
11. 38/47

It was at all material times a carrier of basalt which it knew was in part to be used by the Plaintiff for the manufacture of concrete which it would sell to various customers. Hence no question of foreseeability of harm arising from particular conduct is relevant to the question of the existence of the duty, although it clearly is of relevance to questions of breach and of remoteness of damage 20

Vol.2 pp.640/
650

His Honour then analysed the modern cases dealing with negligence and remoteness of damage in tort in some detail and summarised the questions he had to determine as follows :

Vol.2 p. 650
11. 39 to
p. 651 l. 9

I now turn to examine whether there was any breach of such duty and, in doing so, ask whether in failing to remove sugar which was known to be present, by reason of the survey report, and the presence of which it should have anticipated in any event having regard to the use to which, to its knowledge, the vessel had previously been put, the Defendants should have foreseen the occurrence of the general kind of damage which occurred as 'not unlikely to happen' even in the most unusual case. Another way of asking the same question is to enquire whether (as was done in the Wagon Mound (No. 2) ...) the Defendant failed to take steps to eliminate a risk which it knew or ought to know was a real risk and not a mere possibility which would never influence the mind of a reasonable man. The difficulty of this aspect of the case lies not in the statement of the test but in its application. 30 40

27. His Honour thus examined the evidence to consider whether the Appellants had established

10 either breach of duty or damage. He stressed
the fact that it was not sugar alone, but a
combination of sugar and water which caused
the contamination. Small residues of dry
sugar in the hold had failed to contaminate
earlier shipments of aggregate. On the
relevant occasion the bilge pumping system
was not working (because it was clogged up
with coal or sugar) and therefore water had
accumulated in the hold from a previous load
of wet coal. This meant that the sugar
residues in the hold were dispersed by water
through a large part of the aggregate and
this, in turn, led to the problems in the
setting of the concrete. The learned Judge
declined to infer that any responsible
employee of the Defendant was or should have
been aware of any relevant deficiency in the
ship. He concluded that it was not
20 foreseeable, prior to loading, that the
presence of dry sugar in the hold in the
places and in the quantities in which they
existed at that time was liable deleteriously
to affect the concrete and, accordingly, that
there was no breach of the duty of care owed
to Pioneer N.S.W. because damage of the
general nature of that which occurred was
not reasonably foreseeable. He further
concluded that, in any event, the intervention
30 of water giving to the sugar a harmless
effect was an intervening act which was not
reasonably foreseeable and that accordingly
the damage would have been too remote. The
Appellants submit, in reliance upon the
authorities referred to by the learned Judge,
that the question was whether a reasonable
person would have realised that the aggregate
was to be used in a manufacturing process and
that small quantities of a contaminant might,
40 in the absence of knowledge of the properties
of the specific contaminant, have some
significant deleterious effect. The
Appellants submit that it is apparent that
it was damage of the kind which could be
expected to result from a contaminant, and
the fact that the employees of Miller did not
appreciate the potential consequence does
not negative the foreseeability of some
50 damage of this general kind and, accordingly,
liability for this very damage.

CONCLUSION

28. If the Appellants succeed, they respectfully suggest that the case should

RECORD

be remitted to the Supreme Court of New South Wales for assessment of damages.

WHEREFORE THE APPELLANTS SUBMIT that this appeal should be allowed for the following amongst other

R E A S O N S

- (1) BECAUSE it is unnecessary for South Coast Basalt, in seeking damages for breach of agreement by Miller, to establish that it was legally liable to Pioneer N.S.W. and sufficient to establish that the latter company was a member of the same group which had suffered loss, or, alternatively, that South Coast Basalt had undertaken to meet such loss. 10
- (2) BECAUSE South Coast Basalt were legally liable to Pioneer N.S.W. under Section 19(1) of the Sale of Goods Act.
- (3) BECAUSE South Coast Basalt were liable to Pioneer N.S.W. under Section 19(2) of the Sale of Goods Act. 20
- (4) BECAUSE Miller are liable to Pioneer N.S.W. in damages for negligence.
- (5) BECAUSE the judgment of the Supreme Court was wrong and ought to be reversed.

ROBERT ALEXANDER

D. BENNETT

No. 10 of 1978

IN THE PRIVY COUNCIL

O N A P P E A L

FROM THE SUPREME COURT OF NEW SOUTH
WALES
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