CommBar News

THE COMMERCIAL BAR ASSOCIATION

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Forthcoming Events and Updates

Building Dispute Practitioners' Society Inc.

Discussion Night Wednesday 28 March 2012, 6.30 p.m.

Speaker, Martin Guthrie, Barrister.

Topic, 'That's Privileged! Protecting your confidential information when litigating: a seminar for construction lawyers and expert witnesses'.

Venue, RACV Club, 501 Bourke Street, Melbourne.

Further information www.bdps.com.au/

Fourth International Construction Law Conference
'Global Challenges, Shared Solutions'

Hosted by the Societies of Construction Law of Australia and New Zealand.

6 – 8 May 2012, Sofitel Melbourne on Collins.

Keynote address to be delivered by the Right Honourable Rupert Jackson, Lord Justice of Appeal England and Wales.

A pre-conference seminar of The Canadian College of Construction Lawyers and the American College of Construction Lawyers will be held on 6 May 2012.

Further information www.constructionlaw2012.com.

President's Report

This is the first CommBar Newsletter for 2012 in which I want to outline in general terms CommBar's program for 2012, as presently planned.

CommBar anticipates a busy year which will include:

(i) CommBar's continuing and substantial contribution to the Victorian Bar's CPD program. CommBar is aiming for approximately 25 CPD Seminars during 2012 including CPD Seminars specifically designed to assist the Readers at the Victorian Bar;

(ii) A Report with Recommendations by the CommBar Discovery Procedures Review Sub-Committee;

(iii) A Report by the CommBar Constitution Sub-Committee which is expected to report, inter alia, on the adequacy of the current CommBar Constitution as a foundation for CommBar's activities at this time and going forward;

(iv) The implementation of expected recommendations by independent Marketing Consultants directed to developing and implementing more effective marketing strategies to help CommBar Members to strengthen their commercial practices at the Victorian Bar;

(v) The implementation of substantial upgrades to the CommBar Webpage and a comprehensive updating of the information available on CommBar's Webpage;

(vi) CommBar's annual Cocktail Party which will be held, it is expected, in the second half of 2012.

I also note CommBar's congratulations to Justice Katherine McMillan, CommBar Member appointed to the Supreme Court this month.

I now take the opportunity to mention that the Australian Academy of Law is planning a Symposium to discuss the Victorian Charter of Rights, and I ask that CommBar Members keep an eye out for advertisements for that Symposium which will take place in the evening of 19 April 2012.

I wish all CommBar Members a satisfying and prosperous 2012.

G. John Digby QC
President
CommBar

Intellectual Property

Case Notes by Tom Cordiner and Alan Nash

 

Correspondents for South Australia, Victoria and Western Australia

Note: Where either correspondent was involved in a case reported below and the matter is still running, the other correspondent has taken the role of reporting that case.

Three of the four decisions reported below demonstrate how the differing approaches to joint tortfeasance principles espoused in the decision in *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 449 (*Keller*) continue to plague intellectual property rights-holders confronted with natural persons who use corporate entities as the vehicle for infringement.

On the trade marks front, use of meta-tags on internet pages has been found not to constitute use as a trade mark (*Complete Technology Integrations*). On the copyright front, section 37(1) and (2) have been considered in detail with some useful analysis of how the hypothetical test of the importer making the imported items in Australia is to be addressed and how importing clothing with labels may remove the requirement that the importer knew or ought reasonably to have known that the making of the clothing in Australia would infringe the applicant's copyright *(Facton)*.

Taleb v GM Holden Limited
[2011] FCAFC 168
(27 December 2011)

Trade Marks – joint tortfeasor – principles to be applied

Passing off – exemplary damages

This was an appeal from one of the proceedings reported under *GM Holden Ltd v Paine* [2011] FCA 569. Those proceedings (most of which settled) involved relatively straightforward trade mark and design infringement and passing off claims arising from the importation and sale of replica Holden alloy wheels. In the proceeding that went to judgment, apart from finding infringement on the part of the corporate respondent (in liquidation), the father and son (respectively Ahmed and Mohamed Taleb) running the company were held to be joint tortfeasors with it. Further, exemplary damages in the amount of $200,000 were awarded for the passing off claims in light of the respondents' wanton and contumelious conduct. These latter two aspects of the decision at first instance were the subject of the appeal.

In relation to joint tortfeasance, the trial judge had identified certain tests proposed by Besanko and Jessup JJ (in different terms, and in separate judgments) in *Keller*. On appeal, the Talebs argued that a finding of joint tortfeasance was not open on the evidence in respect of Ahmed Taleb. Ahmed Taleb did not give evidence, but was asserted by Mohamed Taleb to have had little involvement in the day to day operation of the business; it was argued on appeal that the requisite "knowledge" of the wrongdoing (applying one of the tests proposed by Besanko J in *Keller*) had not been made out.

The majority (Finn & Bennett JJ) found no appellable error on the part of the trial judge. A finding of joint tortfeasance was open on, and the requisite elements could be inferred from, the evidence at trial, noting also the adverse findings as to credit made in relation to Mohamed Taleb and the Talebs' failure to discover documents or otherwise provide information about their company and its business. Their honours found joint tortfeasance on the basis that Ahmed Taleb knew the company's conduct would constitute a trade mark infringement and took no steps to stop it. With the greatest respect, there may be some doubt as to how such conduct involved him making the "company's wrongs his own" within the approaches taken in *Keller*.

The majority also considered the factors relied upon the trial judge in awarding exemplary damages. Those factors were said at first instance to have been "brought into sharp focus" by what was described as "a deliberate destruction of documents orchestrated by Mohamed Taleb". In fact, her Honour had been mistaken on that point for a variety of reasons. Nevertheless, the general criticisms of the Talebs' conduct remained valid and exemplary damages were appropriate. Their quantum was reduced, however, to $75,000.

Although agreeing in principle with the applicability of *Keller*, Dowsett J was of the view that the evidence identified by the trial judge in her reasons did not make out joint tortfeasance. His Honour noted that a director of a company is not liable *per se* for its torts; an applicant still needs to demonstrate that a director used the company as an instrument of wrongdoing, made the tort his own and so on. Further, the failure by Ahmed Taleb to give evidence without a satisfactory reason merely strengthened inferences already available; his absence did not relieve GM Holden from the need to discharge its onus of proof.

This case stands as a reminder of the care that needs to be taken when an applicant asserts joint tortfeasance against natural persons, both in terms of evidence and argument before a Court. The differing tests propounded in *Keller* continue to make this a potentially challenging exercise for applicants and the Court.

Idameneo (No 789) Limited v Symbion Pharmacy Services Pty Ltd v

[2011] FCAFC 164

(15 December 2011)

Trade marks – specialised consumers – evidence required to prove deceptive similarity

Contract – effect of using different words to section 10 of the Trade Marks Act

This was an appeal from a decision of Jessup J in which his Honour dismissed a trade mark infringement claim, but upheld a claim for breach of a contractual prohibition against Idameneo adopting a mark "similar to or capable of being confused with" the mark in suit. His Honour held that such language did not equate with "deceptive similarity" in the *Trade Marks Act 1995* (Cth), and by using language like "capable" set a lower bar than the language of "likelihood" set out in the Act. In the circumstances, Idameneo's mark was held at first instance to have been <u>capable</u> of being confused and Idameneo was in breach of the contract.

Symbion's mark in suit (which in actual use is in shades of green) and Idameneo's mark are set out below:

Idameneo appealed the findings against it in respect of breach of contract. Its appeal was upheld.

The Full Court noted that construction of the parties' licence agreement and its ambit required a consideration of the circumstances of the transaction and the parties' objective. In the present case, the licence agreement was part of a demerger of groups of companies and a "commercial elucidation of the contractual rights and restrictions each party would have in respect of the Symbion registration and the Symbion device mark", under which Idameneo had also traded up to the demerger. Notably, the licence agreement did not mention the Idameneo mark, despite that mark having been in use for some years prior to the demerger.

The evidence was that the reputation and goodwill of the Symbion marks, to the protection of which the licence agreement was directed, was located in specialised markets. Accordingly, the Full Court held that the trial judge ought to have required of Symbion evidence from persons in specialised markets to support the contention that "the use of a mark in one market was likely to deceive or confuse persons in a different specialised market" (consistent with the principles set out by Lord Diplock in *General Electric Co Limited (USA) v General Electric Co Limited* [1972] 1 WLR 729, 737-738).

The Full Court accepted that the different language used in the licence compared with the Act must have been intentional. Thus, "similar" meant that the prohibition would capture a wider range of marks than the statutory language of “substantially identical”, although the authorities regarding the tests to be used to assess similarity remained apposite. As to the construction of the words “capable of being confused with”, although broader than the statutory language of “deceptively similar”, the parties must have intended that the possibility of confusion be more than theoretical or idiosyncratic; any capability to confuse must be capable of damaging the reputation and goodwill associated with the Symbion marks.

The Full Court came to the clear view that the two marks were “manifestly different” and that Idameneo’s mark was not capable of being confused with the mark in suit (whether as registered or in actual use). The essential features of the Idameneo mark (namely its three different patterned segments; multiple different colours; and circular circumference) are not present in the “uniform single colour and inverted triangular shape” of Symbion’s marks. An ordinary person was unlikely to mistake one for the other or be confused, whether on first impression or repeat viewing.

Accordingly, Idameneo’s continued use of its mark was not a breach of the agreement, and the appeal was upheld. The case remains a cautionary tale, however, of deviating from statutory language when purporting in a contract to license, or limit, the use of intellectual property rights.

Facton Ltd v Mish Mash Clothing Pty Ltd
[2012] FCA 22
(27 January 2012)

Trade marks – deceptive similarity – clothing labels including descriptive words and other visual elements

Copyright – importation of articles that would infringe if made in Australia – damages – additional damages

Damages – evidence regarding lost sales or harm to reputation – additional damages

Facton is a Hungarian company and registered proprietor of an Australian word mark “G-Star Raw Denim” in respect of certain services, the image mark depicted below for clothing, footwear and headgear, and two other marks in suit. The second applicant was the exclusive licensee of the marks and the third applicant was the Australian distributor of products being the marks.

Mish Mash Clothing manufacturers, imports and sells wholesale and retail clothing under the brand “MISH MASH”. That brand was applied to jeans and t-shirts in a variety of manners, set out below:

The evidence of Mish Mash Clothing was that these labels had been designed for it by a Turkish company from whom it has acquired the clothing in question, and in the first three cases were a modification of the Turkish company's own label.

Use of the MISH MASH marks as trade marks, in respect of relevant goods, was not in issue. The question was whether they were deceptively similar to the G-STAR marks, applying the test of the impression based on the recollection of "persons of ordinary intelligence and memory".

Jessup J held that the first of the MISH MASH marks set out above was deceptively similar. The layout, orientation, style and non-word elements of the mark were extremely similar to those of the G-STAR device, and the reversal of light and dark colours and the replacement of "G-STAR" with "M-MASH" was insufficient to dispel the deception or confusion likely to result. Mish Mash Clothing had gone beyond mere use of descriptive words.

The second MISH MASH mark above also was held to infringe the G-STAR device, although his Honour observed that the case was not as strong. The third MISH MASH mark was a weaker case still, and fell on the other side of the line; the full word "Mish Mash" was used in unusual and disjointed lettering. In his Honour's view, it was "unlikely that a viewer interested in garments of the relevant class would come readily to a sense of wonder or confusion that the label was the mark".

The fourth mark was held not to infringe the G-STAR RAW DENIM word mark. In this case, his Honour did discount the effect of the descriptive words "raw" and "denim" when considering its effect on the consumer. Further, the word mark was registered only in respect of a variety of services, none of which could be considered to be "closely related" to the relevant goods (clothing) within the meaning of s 120(2)(d) of the *Trade Marks Act 1995* (Cth).

The applicants also pursued a copyright claim in respect of the G-STAR image mark. His Honour accepted that the mark was an artistic work. Because Mish Mash Clothing's jeans were imported with the labels already affixed, the applicants needed to rely on s 37 of the *Copyright Act 1968* (Cth). Section 37(1) makes it an infringement to import into Australia for various purposes (including selling) an article that the importer knew, or ought reasonably to have known, would infringe copyright if it had been made in Australia.

His Honour acknowledged that s 37 is not without its constructional difficulties when applied to labels sewn on articles. Ultimately, his Honour concluded that the relevant inquiry was to ask, if the only difference is that the article was made in Australia by the importer rather than being made elsewhere, would the making of it have constituted an infringement of copyright? Thus, the importer is taken to have copied (rather than independently arrived at) the copyright work if the actual maker of the article is found to have copied the work. Whether the importer would have or could have copied the work is not the relevant question.

His Honour accepted the applicants' contention that s 37(2) operated to remove the requirement in s 37(1) that the importer knew or ought reasonably to have known that the making of the article in Australia by it would have constituted an infringement. Section 37(2) only operates where the copyright work is or is part of an accessory to the article. In this case, his Honour accepted that the Mish Mash Clothing labels were accessories to the imported clothes.

Jessup J found that the label of the respondents' Turkish supplier was so strikingly similar to the G-STAR image mark that his Honour was prepared to infer (absent evidence being led by the respondents) that it had been directly or indirectly copied from the same, and reproduced Facton's copyright work in a substantial part. Mish Mash Clothing's labels were, in turn, copied from the Turkish supplier's label. In those circumstances, s 37 applied and the copyright claim was made out.

Somewhat unusually, the applicants elected to seek damages rather than an account of profits. They led, however, little to no evidence regarding lost sales that in his Honour's view enabled him to assess such damages; the present situation was "very far removed from one in which an applicant has done all it reasonably can to quantify its loss" to justify the Court making a final assessment using estimation or even guesswork. An alternative claim based on reputational damage also failed, given that the offending labels were not a conspicuous feature of Mish Mash Clothing's goods, nor was there evidence that the G-STAR marks enjoyed a reputation for exclusivity or originality.

A claim for additional damages under s 115(4) of the *Copyright Act* also failed. It would not have been unreasonable for a buyer dealing with the Turkish company to assume that that company was entitled to use and modify its label on the buyer's behalf. Buyers of goods that are not of themselves copyright works need not source them with a need to make further inquiries or harbour an "in-built suspicion" concerning infringement. Further, Mish Mash Clothing had acted promptly in response to the applicants' letter of demand.

A claim of joint tortfeasance on the part of Mr Yildirim, the second respondent and sole director and shareholder of Mish Mash Clothing, was not made out. On this point, Jessup J observed that it is regrettable that in *Keller* (noted in the case reported above) there was no single articulation of the joint tortfeasor principles in that case. It was tolerably clear, however, that Mr Yildirim in the present case should not be held liable. He was not using Mish Mash Clothing as the instrument for his own wrong; rather, he was undertaking a conventional trading transaction in its name.

Complete Technology Integrations P/L v Green Energy Management Solutions P/L
[2011] FCA 1319
(18 November 2011)

Procedure – application for summary judgment – no challenge by respondents to applicant's claims

Trade marks – use of trade marks as website "metatags" – whether use as a trade mark

Copyright – ownership and extent of copyright – pro forma client letter – partial authorship by managing director

Complete Technology Integrations (CTI) provides automated electronic controls for lighting, AV, air-conditioning and other functions in residential and commercial buildings. It has promoted its business by reference to the marks "Complete Technology Integrations" and "CTI" in a variety of ways, including their registration as trade marks and incorporation into domain names.

The second respondent, Mr Whaling, had been engaged by CTI to set up and run its Canberra operations. The fourth respondent, Mr Wade, had been a senior technical employee in those operations. In those roles, the two men had access to CTI confidential and commercially sensitive information about CTI's business and its operations (and both had executed employee confidentiality agreements). In February 2010 they resigned from CTI, making assurances at the time that they did not intend to compete with CTI in relation to its existing clients and products.

In fact, by that stage Green Energy Management Solutions (Green Energy) had been incorporated with Mr Wade, Mr Whaling and Mrs Whaling (the third respondent) its directors and shareholders. It was also alleged that prior to their departure from CTI, Mr Wade and Mr Whaling (in breach of their contractual and equitable obligations to CTI) had began soliciting CTI clients.

Green Energy also had registered a number of business names in NSW and the ACT, including "CTI" and "Capital Technology Integrations", which later came to be included on stickers, emails, letterhead, online advertising, website metatags and other contexts. The respondents also were said to have used CTI's pro forma client letter and trade marks. This conduct prompted CTI's claims of trade mark and copyright infringement, passing off and contravention of the *Trade Practices Act*.

The respondents were represented until June 2011, after which they were self-represented. Around that time, and pursuant to orders made requiring the respondents to identify those parts of CTI's claims that they intended to contest, the respondents wrote to CTI and indicated that they would not be contenting its "claim in the proceeding".

CTI sought summary judgment under s 31A(1) of the *Federal Court Act* against the Whalings and Mr Wade on issues of liability; Green Energy had gone into liquidation in July 2011. Her Honour noted that application required the Court to be satisfied that those respondents had no reasonable prospect of success in defending those of CTI's claims upon which summary judgment was sought. It did not mean that the Court must necessarily be satisfied that their defences are hopeless or bound to fail.

In considering CTI's trade mark claims, Kenny J found in a fairly uncontroversial fashion that CTI had made out a clear prima facie infringement of its registered marks. As to the complaint about use of "CTI" as a metatag, however, her Honour concluded that:

> *Metatags are invisible to the ordinary internet user, although their use will direct the user to (amongst other websites) Green Energy's website. Once at the Green Energy website, then, in the ordinary course, the internet user will be made aware that the website is concerned with Green Energy's services. It cannot, therefore, be said that the use in a metatag of CTI's Registered Trade Marks is a use that indicates the origin of Green Energy's services. Thus, metatag use is not use as a trade mark.*

A prima facie case was also made out on the passing off and statutory claims.

The copyright claim (which revolved around the respondents lifting content from CTI's pro forma client letter for use in their own letter) was not made out. CTI had sought to rely on the presumptions set out in s 126 of the *Copyright Act*, but the relevant assertions of ownership and subsistence had not been admitted by the respondents on the pleadings. Evidence had been led that CTI's managing director had drafted the initial parts of the letter, which set out a template for collecting customer information. However, there was no evidence that that work fell within the usual scope of his duties so as to enliven s 35(6) of the Act, or that copyright otherwise had been assigned to CTI. Also, no evidence was led as to who drafted the terms and conditions pages of the letter, and it was those pages from which the respondents had copied most extensively. Further, to the extent that Green Energy's letter also had a customer information section, it was to be noted that the scope for varied expression in that context was limited. Although that section had clear similarities, these were a product of the nature of the work.

The contractual breach of confidence claims by and large were made out against Mr Whaling and Mr Wade. Justice Kenny expressed doubt, however, as to whether the same could be said of the equitable causes of action. Her Honour noted authority to the effect that, if there exists a contractual obligation that covers the field, then equity has no cause to intervene to impose its own obligation. Absent argument from CTI to show why in the present case the two sets of obligations should co-existed, her Honour was not minded to conclude that the respondents had no reasonable prospect of defending this aspect of CTI's claims.

The remaining claims against the individual respondents were founded on joint tortfeasance or, in the statutory claims, the accessorial liability provisions of the *Trade Practices Act.* Noting the varying approaches in *Keller*, her Honour held that on any of them there was a strong prima facie case that Mr Whaling and Mr Wade were joint tortfeasors and personally involved in the relevant infringements and contraventions; the same was not true of Mrs Whaling, who appeared on the evidence to have little involvement in the business.

This case provides a clear enunciation of why the use of meta-tags on internet pages is not use as a trade mark. Importantly, the decision of Kenny J departs somewhat from the US authorities.

Insolvency Law

Case Note by Tiphanie Acreman

INSOLVENCY AND THE PERSONAL PROPERTY SECURITIES ACT 2009

After a series of delays, the *Personal Property Securities Act 2009* (Act) commenced on 30 January 2012, and the Personal Property Security Register opened. The Act has rationalised existing Commonwealth, State and territory registers and laws to create a uniform national system. The public interface of this system is a national Register accessible via an online portal where security interests can be searched, registered, amended and discharged.

The Act creates the single, broad concept of a statutory security interest, removing the old distinction between true and quasi-securities in relation to personal property. Put very simply, a 'security interest' is an interest in personal property that secures payment or performance of an obligation. The term is defined in s12 of the Act. In addition to the securities one would expect to find (fixed charge, floating charge, chattel mortgage etc.) other transactions are included, most notably retention of title arrangements, lease of goods and hire purchase agreements. The section provides examples of interests that are included, but the list appears to be non-exhaustive. Provided the transaction meets the requirements of s12(1), and is not excluded by s12(5) or (6) or s8, it should be covered by the Act.

In terms of insolvency practice, the Act introduces significant changes amounting to a shift in focus from title to security. Priority is now based on perfection, not title. This is demonstrated by provisions in relation to unperfected security interests incorporated into Pt 8.2 of the Act. Subject to some exceptions, in the event that an individual grantor becomes bankrupt, or a company or body corporate grantor is wound up, an administrator appointed, or a deed of arrangement is entered, unperfected security interests vest in the grantor immediately before the relevant event.

By way of a practical example, where an operating lease has been entered and the lessee is wound up the lessor may lose title if its security interest is unperfected. The assets would then be available to the liquidator and the lessor would become a mere unsecured creditor.

A further change of particular relevance to insolvency practice relates to fixed and floating charges. The Act does not make a distinction between the two, they are both simply "security interests". The previous distinction is intended to be removed in the context of personal property. As a by-product, the concept of crystallisation of a floating charge also ceases to be relevant in this context. Consequently, in future transactions, rather than creating a fixed and floating charge, a security interest may be created over all present and after-acquired property. And, rather than a floating charge crystallising, the security interest will attach at the time specified by the Act.

Despite this, it was recognised that a distinction between fixed and floating charges is, at this time, unavoidable in some instances (for example in allocating assets on a liquidation), and remnant references will remain in some security agreements and legislation. In answer to this, the Act creates the concept of a 'non-circulating asset' which is similar to a fixed charge, and 'circulating asset' which equates to a floating charge, with these terms defined in Pt 9.5 of the Act. As part of the amendments included in the *Personal Property Securities (Corporations and other Amendments) Act 2010*, the asset distribution rules in the *Corporations Act* have been altered to reflect the new terminology, with the stated aim of maintaining existing rights. For example in s561 of the *Corporations Act*, employee priority over assets subject to a floating charge is now granted in relation to assets subject to a "circulating security interest".

This article briefly examines two topics relevant to insolvency as a result of the regime created by the Act. The complexity of the legislation and its interplay with the *Corporations Act* result in a myriad more. The Explanatory Memoranda are of particular assistance in navigating these issues. Some relevant web links are set out below.

Personal Property Securities Act 2009 (Cth)
    Explanatory Memorandum
Personal Property Securities (Corporations and other Amendments) Act 2010
    Explanatory Memorandum
Personal Property Securities (Corporations and other Amendments) Act 2011
    Explanatory Memorandum
Personal Property Securities Regulations 2010
    Explanatory Statement

Case Note by Caroline Kirton SC

BHP BILLITON (OLYMPIC DAM) CORPORATION PTY LTD v STEULER INDUSTRIEWERKE GMBH (NO. 2)
[2011] VSC 659 (16 December 2011)

This case concerned the assessment of damages in two related proceedings, concerning the construction of a new copper and uranium solvent extraction plant at the Olympic Dam mine at Roxby Downs in South Australia in 1998 and 1999. Liability had already been determined by the trial judge, Justice Habersberger in earlier proceedings[1].

Background

The mine is owned by BHP Billiton (Olympic Dam) Corporation Pty Ltd ('WMC'). The dispute related to the suitability of a polyethylene lining material ('HDPE') for concrete tanks forming part of the extraction plant ('the Tanks'). The HDPE had been manufactured by a German company Steuler Industriewerke GmbH ('Steuler'), and given the trade name *Bekaplast*. Bekaplast was sold by Steuler to an Australian company Protec Pacific (NSW) Pty Ltd ('Protec NSW'). Bekaplast had been installed by either Protec NSW or Protec Pacific Pty Ltd ('Protec'), pursuant to various agreements with WMC.

WMC had replaced the Bekaplast lining in the Tanks with a fiberglass lining. WMC alleged that the Bekaplast lining was not a suitable material to use in the Tanks and that it had failed or was about to fail at the time it was removed.

The First Hearing

At the first hearing the Trial Judge had found that Steuler had made various representations to Protec NSW and WMC. These representations included a representation that Bekaplast would be a suitable long term lining for the Tanks. WMC had relied on these representations and decided to enter into an On-Site Service Agreement with Protec to install the Bekaplast lining system in the Tanks.

His Honour held that the representations made by Steuler were misleading and deceptive conduct in contravention of Section 52 of the *Trade Practices Act 1974 Cth.* The representations were also held to have been made negligently in breach of Steuler's duty of care to WMC and Protec.

[1] [2009] VSC 322 (7 August 2009).

Second Hearing

There were two main issues for the Court to consider at the second hearing. The first issue was the amount of damages, if any, that WMC was entitled to as a result of Steuler's contravention of Section 52 of the *Trade Practices Act 1974 Cth*. Secondly, Protec claimed $15 million from Steuler, being the amount that it had settled WMC's claim against it and the amount of the consent judgment entered against it pursuant to the settlement.

Assessment of WMC's Damages

WMC claimed the entire cost of installing the Bekaplast lining system in the Tanks in 1998 and 1999, the cost of repairing the lining and the cost of removing the Bekaplast lining in 2002 and restoring the Tanks in readiness for the installation of a new lining. WMC claimed $13,716,813.03.

WMC relied on the High Court's decision in *Henville v Walker* [2]. In that case the majority held that the appellant architect was entitled to recover the whole of the amount he lost on a residential unit development project, on the basis that this amount was what he had suffered by way of prejudice or disadvantage in consequence of altering his position, by reason of a breach of the *Trade Practices Act 1974 Cth,* by representations made by an estate agent.

However Counsel for Steuler drew a distinction between a "no transaction case" and an "alternative transaction case". It was argued that *Henville v Walker* was a "no transaction" case. That was a case where the plaintiff argued that but for the contravening conduct which caused him to be misled, he would not have embarked upon the transaction at all. It was submitted by Counsel for Steuler that this was an "alternative transaction case". That meant that if the contravening conduct had not occurred, WMC would still have expanded the site at the Olympic Dam mine and entered into an alternative agreement with another supplier for the lining of the Tanks.

Counsel for Steuler argued that WMC had not established what it would have done if Steuler had not engaged in the misleading conduct. Attention was drawn to the fact that at the first hearing, WMD's Counsel had said in final submissions that it was "impossible to predict"[3] what WMD would have done had it not entered into the transaction with Steuler. Counsel for Steuler submitted that WMC could not demonstrate the required comparison between the situation brought about by the contravening conduct and what the situation would have been without the contravening conduct. It was therefore submitted that WMC could not prove that it had suffered any loss as a result of Steuler's misleading conduct.

Justice Habersberger agreed with the submissions made on behalf of Steuler. His Honour said, relying on *Gates v City Mutual Life Assurance Society Ltd*[4]:-

[2] [2001] HCA 52; (2001) 206 CLR 450.
[3] [2011] VSC 659, [27].
[4] (1986) 160 CLR 1,13.

"In a no transaction case, the comparison is rather easier for the plaintiff to establish because the alternative course of action is simply that the plaintiff would not have entered into the transaction at all, but for the representation. However, in the alternative transaction case, the plaintiff will need to have evidence of what it could and would have done had the contravention not occurred, in order to prove that it has suffered loss in consequence of the contravention"[5].

His Honour agreed that WMC had not proved that it had suffered any loss, as it had not proved what it would have done had it not been misled.

There was also a second reason why WMC failed to prove that it had suffered any loss. In October 2001 there was a fire and WMC had to replace the lining in the Tanks with a fire retardant and conductive lining, to comply with its statutory and common law obligations and to obtain insurance cover for the plant. His Honour held that WMC had suffered no loss because it still would have incurred the cost of removing the lining due to the fire in October 2001.

Accordingly Justice Harbesberger held that WMC had failed to demonstrate that it had suffered loss or damage by the conduct of Steuler done in breach of Section 52 of the *Trade Practices Act 1974 Cth* or for the claim in negligence. His Honour however proceeded to assess the quantum of WMC's claim in detail, in case his conclusions were overturned on appeal.

Protec's Damages Claim

WMC also brought proceedings against Protec. Protec settled WMC's claims against it in about July or August 2007, and WMC entered judgment against it by consent in the sum of $15,000,000. Proctec commenced proceedings pursuant to the *Trade Practices Act 1974 (Cth)* and in negligence against Steuler, seeking to recover as damages the $15 million for which it settled WMC's claim.

At the first hearing Protec's director gave evidence that he had entered into the settlement on the advice of Protec's solicitor. The Plaintiffs' Counsel argued that the Court could infer that the settlement was the "product of negotiation involving the solicitors for the relevant parties"[6]. It was also argued that the reasonableness of the settlement was apparent as the amount settled was $15 million and the potential exposure at the time was $45.8 million.

Justice Habersberger relied upon the High Court's decision in *Unity Insurance Brokers Pty Ltd v Rocco Pezzano Pty Ltd*[7]*.* In that case the High Court considered what a plaintiff was required to prove where proceedings had been settled and the plaintiff was seeking to recover the settlement sum.

Justice Habersberger said:-

"The principle that emerges from the majority judgment in *Unity Insurance Brokers* is that the plaintiff needs to establish that a loss, as represented by a settlement sum, was caused by the defendant's breach which was not too remote. There is no additional requirement of

[5] [2011] VSC 659, [34].

[6] [2011] VSC 659, [219].

[7] (1998) 192 CLR 603.

"reasonableness". However the inquiry into causation and remoteness questions may be informed by the "reasonableness" of a settlement sum"[8].

The test of "reasonableness" is objective[9] and the plaintiff bears the onus of proving that the settlement sum was reasonable[10]. The time for assessing "reasonableness" is at the time of the settlement[11].

His Honour relied particularly upon the judgments of Brennan CJ, McHugh J and Hayne J in *Unity Insurance Brokers Pty Ltd v Rocco Pezzano Pty Ltd* . His Honour concluded that Protec's failure to call any evidence from its legal advisers about the negotiations, the reasoning that led to the settlement or other matters which were taken into account when Protect decided to settle, was a "fatal omission" in Protect's case[12].

His Honour said that he was unable to be satisfied that the settlement sum was reasonable without such evidence. Protect had therefore failed to prove that the quantum of its loss and damage caused by Steuler was $15 million or any amount at all. Accordingly Protec's claims pursuant to the *Trade Practices Act 1974 (Cth)* and in negligence failed.

Therefore Stueler succeeded in defending each proceeding against it.

[8] [2011] VSC 659, [228].
[9] [2011] VSC 659, [229].
[10] *BNP Paribas v Pacific Carriers Ltd* [2005] NSWCA 72, [14] & [17].
[11] *Unity Insurance Brokers Pty Ltd v Rocco Pezzano Pty Ltd* (1998) 192 CLR 603, [7] (Brennan CJ) and [130] (Hayne J).
[12] [2011] VSC 659, [233].

DURA (AUSTRALIA) CONSTRUCTIONS PTY LTD v VICTORIAN MANAGED INSURANCE AUTHORITY
[2012] VSC 34 (9 February 2012)

This case involved the issue of whether answers to preliminary questions determined at a preliminary hearing in the Victorian Civil and Administrative Tribunal ('VCAT'), constituted an order for the purpose of an appeal to the Supreme Court of Victoria.

Background

In May 1998 Dura (Australia) Constructions Pty Ltd ('Dura') entered into a contract with Cromwell Developments Pty Ltd to construct 32 apartments ('the Cromwell Development'). The work at the Cromwell Development was completed in about 2000.

The owners of the apartments at the Cromwell Development made claims against the Victorian Managed Insurance Authority ('VIMA') for alleged defects in the construction of the apartments. VIMA is the statutory authority that acts as the agent for the State of Victoria and administers the Domestic Building Indemnity Fund under the *House Contracts Guarantee Act 1987.*

VIMA accepted the claims made by the owners of the apartments at the Cromwell Development. A dispute then arose between VIMA and Dura. VIMA argued that Dura had taken out a policy of insurance with FAI that entitled VIMA to give Dura directions to rectify the defects. Dura argued that it had taken out an earlier form of the policy that did not entitle VIMA to give instructions to Dura to rectify the defects.

VCAT Proceedings

VIMA issued proceedings in VCAT against Dura, seeking various declarations and an order that Dura pay its costs of rectifying the defects. The Tribunal ordered that some preliminary questions be answered at a preliminary hearing, before finally determining the proceeding. The preliminary questions included a question as to whether Dura was bound by the policy of insurance to rectify the defects, as contended by VIMA.

The hearing of the preliminary questions took place before Deputy President McNamara (now Judge McNamara), who determined all of the questions in favour of VIMA.

Supreme Court Proceedings

An appeal from VCAT to the Supreme Court may only be made on a question of law[13]. Before an appeal may be filed, leave to appeal is required to be given by the Supreme Court. In this case Associate Justice Lansdowne heard Dura's application for leave to appeal to the Supreme Court. Her Honour allowed leave to appeal on two of Dura's grounds of appeal and not the other grounds.

Dura appealed again and the matter was then heard by Justice Robson. His Honour adjourned the substantive hearing of Dura's appeal, pending the hearing of a preliminary objection raised by VIMA.

At the hearing before Justice Robson, VIMA argued that the answers to the preliminary questions were not orders and therefore could not be subject to an appeal to the Supreme Court. This was said to be because Section 148(1) of the *Victorian Civil and Administrative Tribunal Act 1998* provides that an appeal lies only "from an order of the Tribunal in the proceeding".

His Honour noted that the *Supreme Court (General Civil Proceeding) Rules 1985*, particularly Rule 47.04, contains rules that provide for the determination of questions before or after the trial of a proceeding. His Honour also noted that Rule 29 of the *Federal Court Rules* contains a similar provision.

His Honour relied upon the decision of the Full Court of the Federal Court in *Town v Australian Telecommunications Commission*[14]. In that case the Court held that the determination of a separate question under Rule 29 of the *Federal Court Rules* constituted an appealable judgment, regardless of whether a specific order pursuant to Rule 29 was made. The decision in *Town v Australian Telecommunications Commission* was cited with approval by a further Full Federal Court in *Landsal Pty Ltd v Other Building Society*[15].

His Honour placed emphasis upon Section 98 of the *Victorian Civil and Administrative Tribunal Act 1998*, which provides that the Tribunal is not bound by any practices or procedures applicable to courts, but may also adopt such practices or procedures. His Honour was of the opinion that the Tribunal had adopted the procedure provided for in Rule 47 of the *Supreme Court (General Civil Proceeding) Rules 1985*, by ordering that preliminary questions be determined in a separate hearing. His Honour reasoned that if the hearing had been conducted in the Supreme Court, there was no reason why the Supreme Court would not follow the decisions of the Full Federal Court in *Town v Australian Telecommunications Commission* and *Landsal Pty Ltd v Other Building Society*.

Justice Robson held that the questions decided by VCAT were fundamental to the eventual disposition of the matter. His Honour concluded that the Tribunal was entitled to make interlocutory orders and that it was not "fatal to the contention that the Tribunal did make an order for the purposes of s 148 that it did

[13] Section 148 *Victorian Civil and Administrative Tribunal Act 1998 (Vic).*
[14] (1983) 47 ALR 137.
[15] (1993) 113 ALR 663.

not finally dispose of the matter”[16].

His Honour therefore held that the interlocutory orders of the Deputy President were orders of the Tribunal for the purposes of Section 148 of the *Victorian Civil and Administrative Tribunal Act 1998*. The answers to the preliminary questions were sufficient to constitute an order for the purpose of an appeal to the Supreme Court.

The preliminary objection raised by VMIA was dismissed and VIMA was ordered to pay Dura’s costs of the hearing relating to the preliminary objection.

[16] [2012] VSC 34, [55].

Article by Caroline Kirton SC

NEW VCAT PRACTICE NOTES

Barristers appearing in the Victorian Civil and Administrative Tribunal ('VCAT') and particularly the Domestic Building List, should be aware that on 15 March 2012 VCAT introduced a number of new Practice Notes.

There are now a number of new Practice Notes that apply Tribunal-wide. The purpose of these new Practice Notes is to achieve greater consistency in the way the Tribunal operates. The new Practice Notes which apply to proceedings in all lists are-

(a) **PNVCAT1 – Common Procedures.** This Practice Note deals with matters such as communications with the Tribunal, withdrawal from a proceeding, consent orders, settlement before the hearing, seeking adjournments and the recording of hearings.

(b) **PNVCAT2 - Expert Evidence.** This Practice Note supersedes the Practice Note relating to Expert Evidence issued on 1 September 1999 and is significantly more detailed than the previous Practice Note. The operation of the Practice Note now also extends to the arrangements for a Tribunal appointed expert or special referee.

The Practice Note requires some additional matters to be included in an expert's report. These include matters such as:-

(i) "Reference to any private or business relationship between the expert witness and the party for whom the report is prepared" (Paragraph 11(d)).

(ii) A cover page containing certain prescribed information (paragraph 11(k)).

The Practice Note contains further recommendations as to the form of the expert witness report, such as adopting the same number sequences used in other Tribunal documents and using A4 paper.

In the event that there is no direction or order setting a time for the filing of a report of an expert witness, a report must be filed and served no less than 10 business days before the commencement of the relevant mediation, compulsory conference or hearing at which it is intended that the report be relied upon.

The Practice Note also contains directions in relation to the meeting of experts, how expert evidence may be given at a hearing and the appointment by the Tribunal of its own expert or a special referee.

(c) **PNVCAT3 – Fair Hearing Obligation.** This Practice Note supersedes the Practice Note issued on 1 October 2010. It provides procedural guidance as to how the fair hearing obligation may be discharged by Tribunal Members, particularly in relation to self-represented parties. It also sets out the obligations of the parties and parties' representatives.

(d) **PNVCAT4 – Alternative Dispute Resolution (ADR).** This is a new Practice Note. It sets out matters such as the benefits of Alternative Dispute Resolution ('ADR'), describes the mediation and compulsory conference procedures, the procedure for seeking an adjournment, preparing for ADR, failure of a party to attend and the procedure after a successful ADR.

(e) **PNVCAT5 – Directions Hearings and Urgent Hearings.** This is a new Practice Note. A directions hearing may be scheduled by the Tribunal on its own initiative or at the request of a party. A party seeking directions should file a request in writing and preferably use the *Application for Directions or Orders* form or the *Practice Day Request* form for Planning and Environment List matters.

The Practice Note sets out matters that will be considered at a directions hearing, amendment of procedural timetables and attendance at directions hearings by telephone or video link. The Tribunal will in urgent matters (at its discretion), conduct urgent hearings with the assistance of computer based video links such as 'Skype'. The procedure for the hearing of urgent matters on substantial issues is also set out.

There have also been some changes to list specific Practice Notes. **PNDB1 - Domestic Building List General Procedures** ('PNDB1') supersedes the Domestic Building List Practice Note, which came into operation on 13 June 2007. PNDB1 is noted to be a transitional version only, taking into account the modifications introduced by the Tribunal wide Practice Notes dealing with common procedures. A fully revised Domestic Building List Practice Note is scheduled to be introduced later in 2012.

PNDB1 states that where a claim relates to incomplete or defective building works, a copy of any expert report identifying such incomplete or defective works should be served on the other parties at least <u>seven</u> days prior to any mediation (paragraph 7). Note that this is inconsistent with PNVCAT2 – Expert Evidence, which states that any such report must be served ten days prior to any such mediation. PNDB1 also states that the provisions in relation to expert reports and the giving of expert evidence are set out in PNVCAT2 – Expert Evidence (paragraph 49). This leads to some internal inconsistency in the Practice Note in relation to the time for service of expert witness reports prior to a mediation.

A new feature in the Practice Note is that it provides that where an application is made for joinder of a party, where the party to be joined is to be joined as a concurrent wrongdoer for the purposes of Part IVAA of the *Wrongs Act 1958*, the application need no longer be accompanied by draft points of claim against the proposed party (paragraph 26).

Reference to appeals, the publication of decisions and to the Domestic Building List Users Group have been removed from PNDB1 and do not appear to have been replicated in the any of the Tribunal wide Practice Notes.

FORTHCOMING EVENTS

Building Dispute Practitioners' Society Inc.

Discussion Night Wednesday 28 March 2012, 6.30 pm

Speaker, Martin Guthrie, Barrister.

Topic, 'That's Privileged! Protecting your confidential information when litigating:
a seminar for construction lawyers and expert witnesses'.

Venue, RACV Club, 501 Bourke Street, Melbourne.

Further information www.bdps.com.au/

Fourth International Construction Law Conference
'Global Challenges, Shared Solutions'

Hosted by the Societies of Construction Law of Australia and New Zealand.

6 – 8 May 2012, Sofitel Melbourne on Collins.

Keynote address to be delivered by the Right Honourable Rupert Jackson, Lord Justice of Appeal England and Wales.

A pre-conference seminar of The Canadian College of Construction Lawyers and the American College of Construction Lawyers will be held on 6 May 2012.

Further information www.constructionlaw2012.com.

Case Note by Adam Rollnik

Federal Court's jurisdiction to enforce "non-foreign" arbitration awards

Castel Electronics Pty Ltd v TCL Air Conditioning (Zhongshan) Co Ltd [2012] FCA 21 (23 January 2012)

Summary

1. Murphy J in the Federal Court, in the matter of *Castel Electronics Pty Ltd v TCL Air Conditioning (Zhongshan) Co Ltd* [2012] FCA 21 (23 January 2012), held that the Federal Court has jurisdiction to enforce an arbitration award made in Australia pursuant to the *International Arbitration Act 1974* (Cth) (**IAA**).

2. The issue fell for determination because the IAA does not vest the Federal Court, or any court, with jurisdiction to enforce arbitral awards *made in Australia* under the IAA.

3. This is an important decision because it adds to the certainty of arbitration as a dispute resolution mechanism in Australia. It does so by making it clear that the Federal Court can enforce arbitral awards *made in Australia* under the IAA. While State Supreme Courts *may* have inherent jurisdiction to enforce these types of awards, this issue was specifically not dealt with in this case.

4. Finally, in obiter comments, Murphy J found that s 21 of the IAA has a retrospective operation (see paragraphs 28 to 35 below). If this finding is followed it will mean that any agreement by parties to an arbitration agreement entered into before 6 July 2010 to *opt out* of the Model Law (when opting out was possible) will be of no effect.

Facts

5. Castel Electronics Pty Ltd (registered in Australia) ("**Castel**") and TCL Air Conditioning (Zhongshan) Co Ltd (registered in China) ("**TCL**") were in dispute arising out of conduct in connection with a distribution agreement.

6. The agreement provided for arbitration of disputes in Australia. Given that one of the parties had its place of business in China, the arbitration was one conducted under the IAA. Castel succeeded in its claim at arbitration and obtained an award from the arbitral tribunal that TCL pay

it $2.8M plus costs.

7. Castel then applied to the Federal Court to enforce the award. TCL disputed the Federal Court's jurisdiction to do so.

The law

8. Section 16 of the IAA provides that, subject to Part III of the Act, the Model Law has the force of law in Australia. The Model Law was prepared by the United Nations Commission on International Trade Law ("**UNCITRAL**") and is contained in schedule 2 of the IAA and forms part of the Act.

9. The Model Law was explained by Murphy J in the following terms (at [18]):

> "*The Model Law was drafted by UNCITRAL as a model form of legislation capable of being enacted into the law of any participating country. It could not, and does not, specify which court or courts in each participating country can exercise the functions required by it, or the court procedures for enforcement in each such country. These are matters to be dealt with in the legislation of the enacting country*."

10. Article 1(1) of the Model Law provides that it applies to "*international commercial arbitrations*". Article 1(3) provides that an arbitration is "*international*" if it is between parties that have their places of business in different countries. Castel (China) and TCL (Australia) had their places of business in different countries. On this basis it was common ground between the parties that the IAA and the Model Law applied to this arbitration.

11. Sections 8(2) and 8(3) of the IAA specifically vest jurisdiction in the Federal Court and the State and Territory Courts to enforce "*foreign awards*". A "*foreign award*" is defined in the IAA as:

> "…*an arbitral award* ***made****, in pursuance of an arbitration agreement,* ***in a country other than Australia****, being an arbitral award in relation to which the Convention*[17] *applies*." [emphasis added]

12. However, in this case, given that the award was made *in Australia*, it was not a "*foreign award*" within the meaning of the IAA. Rather, and as characterised by Murphy J, the award was a "*non-foreign*" award. (Murphy J preferred the moniker "*non-foreign*" to "*domestic*" given that awards made under state arbitration acts (eg the *Commercial Arbitration Act 2011* (Vic)) are referred to as "*domestic awards*".)

13. While the IAA vests jurisdiction in the Federal Court and other Australian courts to enforce foreign awards, it does not explicitly do so in connection with the enforcement of non-foreign awards.

[17] The "Convention" (which is set out in Schedule 1 of the IAA) is the Convention on the Recognition and Enforcement of Foreign Arbitral Awards adopted in 1958 by the United Nations Conference on International Commercial Arbitration at its twenty-fourth meeting, commonly referred to as the "New York Convention".

However, the IAA does indicate that courts will have a role to play in the enforcement of non-foreign awards, as explained below.

14. Articles 35 and 36 of the Model Law deal with the enforcement of "*arbitral awards*". Murphy J held that "*arbitral awards*" as set out in these Articles means both foreign and non-foreign awards.

15. A party enforces an arbitral award pursuant to Article 35 of the Model Law. Article 35(1) of the Model Law provides:

> "*An arbitral award, irrespective of the country in which it was made, shall be recognised as binding and, upon application in writing to the competent court, shall be enforced subject to the provisions of this article and article 36*."

16. Article 36(1) provides for the setting aside of an "arbitral award" on various grounds summarised by Murphy J at par 23 as:

> "…*including the incapacity of a party, invalidity of the arbitration agreement, insufficiency of notice of appointment of an arbitrator or of an arbitration, the inability of a party to otherwise present its case, that the award contains decisions on matters beyond the scope of the arbitration, and that composition of the tribunal or the arbitral procedure was not in accordance with the agreement*;"

17. The Court explained that the ordinary meaning of "*arbitral award*" in the IAA and Model Law is clear, although the term is not defined. The Court stated at [15] that an arbitral award:

> "…*means no more than an award made by an arbitral tribunal in an international commercial arbitration, and it therefore includes both foreign and non-foreign awards. Foreign and non-foreign awards are each types of arbitral award[s] covered by the [IAA] and Model Law*."

18. However, Articles 35 and 36 of the Model Law are excluded from applying to the enforcement of "*foreign awards*" (s 20 of the IAA). Accordingly, Murphy J held that this indicated, along with other sections of the Act, that a court was to have a role in the enforcement of non-foreign awards pursuant to Articles 35 and 36.

19. Nevertheless, while the IAA and Model Law thus indicated that Parliament intended for the courts to enforce non-foreign awards, the IAA does not specifically vest the Federal Court (or any court) with jurisdiction to do so. Accordingly, the issue for the Federal Court to determine was whether section 39B(1A)(c) of the *Judiciary Act 1903* (Cth) confers jurisdiction on the Federal Court to enforce non-foreign awards made pursuant to the IAA.

Section 39B(1A)(c) of the Judiciary Act

20. Section 39B(1A)(c) of the Judiciary Act provides:

> "*The original jurisdiction of the Federal Court of Australia includes jurisdiction in any matter:*
>
> *…*
>
> *(c) arising under any laws made by the Parliament, other than a matter in respect of which a criminal prosecution is instituted or any other criminal matter*."

21. Murphy J noted, citing *Hooper v Kirella* [1999] FCA 1584 and other cases, that this section operates as a general conferral of broad supplementary jurisdiction on the Federal court unless expressly or impliedly proscribed. His Honour stated that the question was whether this section confers jurisdiction on the Federal Court such that it is a "*competent court*" as described under the Model Law, and whether in the circumstances there is a "*matter*" arising under a law of the Federal Parliament.

Is there a "matter" and does it arise under Federal Law?

22. In a nutshell, Murphy J held that "*matter*" as referred to in s 39B(1A)(c) meant the underlying justiciable controversy or dispute between the parties made up of the substratum of facts, claims and defences representing the dispute, of which the federal issue forms a part. It means more than the legal proceedings between the parties and is identifiable independently of them (citing *Fencott v Muller* (1983) 152 CLR 570).

23. TCL contended there was no "*matter*" because the subject matter of the dispute was determined in the arbitration. Murphy J did not accept this submission and stated that the dispute relates to whether the arbitral award can be enforced in reliance on Art 35 of the Model Law, and whether enforcement should be refused or allowed under Art 36. Murphy J held that this amounted to a justiciable controversy and was a matter for the purposes of s 39B(1A)(c) of the Judiciary Act.

24. Murphy J next considered whether the matter was one that arose under a federal law, and cited the High Court in *Felton v Mulligan* (1971) 124 CLR 367 at 414 where Gibbs J stated:

> "...*a matter arises under a law made by the Parliament when a right, title, privilege or immunity is claimed under that law. A right, title, privilege or immunity may be claimed under a law, either because the law is the source of the right, title, privilege or immunity or because the right, title, privilege or immunity can only be enforced by virtue of the law*."

25. Murphy J held that the Court in this case was obliged to determine the parties' rights and obligations in connection with the enforcement of an award under a federal law, being the IAA, and therefore the matter arose under a federal law.

26. Finally, after determining that the Federal Court did have jurisdiction to enforce non-foreign awards pursuant to s 39B(1A)(c) of the Judiciary Act, Murphy J relied on section 54(1) of the *Federal Court of Australia Act* (1976) as the basis to make an order in the terms of the award. Section 54(1) provides:

> "*The Court may, upon application by a party to an award made in an arbitration (whether carried out under an order made under section 53A or otherwise) in relation to a matter in which the Court has original jurisdiction, make an order in the terms of the award*."

27. Accordingly, the Court held that the Federal Court has jurisdiction to enforce non-foreign arbitral awards made under the IAA.

Addendum: section 21 of the IAA and opting out of the Model Law

28. In its submission that the Federal Court had jurisdiction to enforce the arbitral award, one of the arguments put by Castel was that the Federal Parliament *must* have intended the Federal Court to have such jurisdiction because if not, no court (including any State Supreme Court) would have jurisdiction to enforce a non-foreign award.

29. The Court noted that the IAA does not identify any court as a "competent court" to enforce a non-foreign award under the IAA. TCL argued that State Supreme Courts would have inherent jurisdiction to enforce awards made under the IAA.

30. However, Castel relied on s 21 of the IAA to argue otherwise. Section 21 provides:

> "*If the Model Law applies to an arbitration, the law of a State or Territory relating to arbitration does not apply to that arbitration*."

31. Castel submitted that s 21 means that the Model Law covers the field, and that without a conferral of federal jurisdiction by the IAA, the Supreme Court has no jurisdiction (inherent or otherwise) to enforce a non-foreign award.

32. TCL, on the other hand, submitted that s 21 does not apply. The current s 21 of the IAA came into effect on 6 July 2010 (*International Arbitration Amendment Act 2010*), and TCL argued that s 21 has a prospective operation only. Accordingly, TCL submitted that s 21 did not apply to the present dispute as the distribution agreement (and arbitration agreement) was entered into 2003. TCL further submitted that the old s 21 continued to apply. The old s 21 did not "oust" the laws of a State or Territory and provided parties with the option of opting out of the Model Law (though in this case there was no suggestion that the parties had agreed to opt out of the Model Law).

33. Given the Court found it had jurisdiction to enforce the award pursuant to s 39B(1A)(c) of Judiciary Act (as explained at pars 8 to 27 above), the issue as to whether or not s 21 has a

retrospective operation and applies to arbitration agreements entered into prior to 6 July 2010 did not need to be decided by the Court. Nevertheless, for completeness, Murphy J dealt with this issue.

34. After examining the law as to the presumptions that apply vis-à-vis the prospective/retrospective operation of legislation, and noting that a statute, merely procedural, is to be construed retrospectively, his Honour stated:

> "*Dealing as it does with arbitral law, the current s 21 should be construed as procedural and therefore retrospective unless the Act indicates a contrary intention by express terms or by clear implication. I consider that the available indications point to a Parliamentary intention that the current s 21 be given immediate effect upon enactment*." [71]
>
> "…*Parliament gave no indication* [in amending the IAA in July 2010] *that these amendments were only to operate on arbitration agreements entered* [into] *after the date of amendment*." [74]

35. Therefore s 21 applies to arbitration agreements entered into both before and after 6 July 2010 (when the news 21 came into effect). While Murphy J's comments concerning the retrospective operation of s 21 are clearly obiter, they are likely to be of significance because (if upheld) they will mean that any agreement to "opt out" of the Model Law under the old s 21 will be of no effect.

Corporations and Securities

Case Note by Roslyn Kaye

Mernda Developments Pty Ltd (in liq) v Alamanda Property Investments No 2 Pty Ltd (formerly known as Dollarforce Financial Services Pty Ltd (in liq))
[2011] VSCA 392

Shadow director - directors' duty under Corporations Act section 181(1)(a) (duty to act in good faith in the best interests of the corporation)

This was an appeal from the decision of a trial judge that a shadow director of a company did not breach his director's duty to act in good faith and in the best interests of that company by entering into a loan facility agreement with another company. The Victorian Court of Appeal reversed that decision, holding that the director had breached his duty under section 181(1)(a) of the *Corporations Act 2001* (Cth). The Court of Appeal exercised its powers under section 1317H of the *Corporations Act* and ordered that the director compensate the company for the losses which it had suffered as a consequence of his breach of duty.

The director in question, Mr Clestus Weerappah, procured a company of which he was a shadow director, Mernda Developments Pty Ltd ("Mernda"), to enter into a facility agreement as borrower with another company, Alamanda Property Investments No 2 Pty Ltd, the lender, for the purposes of acquiring, developing and reselling a property. There were 25 borrowers under the facility agreement. The terms of the facility agreement required any borrower who sold or disposed of any real property or any interest in real property to pay the whole of the proceeds of the sale to the lender, up to the amount of the principal outstanding at the time of the sale, whether or not that particular borrower itself was indebted under the facility agreement for that entire amount. A further term of the facility agreement provided that the repayment date was to be six months from the date of entering into the agreement. In the case of Mernda, that meant that the repayment date was prior to the date on which it would have been required to complete its purchase of the property. The agreement also provided that Mernda would meet the obligations of the other borrowers to the extent that they were not able to do so themselves.

The trial judge had held that Mr Weerappah had not breached his duty under section 181(1)(a), as by entering Mernda Developments Pty Ltd into the facility agreement, he had caused the company to secure funds which it required in order to complete the purchase of a property.

The Court of Appeal reversed that decision. The Court of Appeal accepted that the trial judge had applied the correct test for determining whether there had been a breach of section 181(1)(a), namely, the objective test of "whether an intelligent and honest man in the position of a director of the company concerned, could, in the whole of the existing circumstances, have reasonably believed that the transactions were for the benefit of the company." The difference between the trial judge and the Court of Appeal lay in the application of the general test. The Court of Appeal decided that Mr Weerappah had breached his duty by entering Mernda Developments Pty Ltd into the facility agreement which exposed the company to the risk of immediate liability for the debts of others, coupled with the requirement that it disgorge all of its proceeds on disposal of assets, particularly in circumstances where it was not entitled to further advances under the facility agreement.

The Court further held that the company was entitled to compensation for its losses which it suffered as a result of Mr Weerappah's breach of duty. The amount of compensation payable by Mr Weerappah was the amount of a payment made by Mernda to the lender after it disposed of an asset, less the amount actually owing to the lender at that time (an amount in the order of $7.7m). The Court noted that no claim for interest on that sum had been sought by or on behalf of Mernda.

ACN 078 272 867 (in liquidation) (formerly Advance Finances Pty Ltd) & Anor v Deputy Commissioner of Taxation & Anor [2011] HCA 46

Deregistration of corporations – procedural fairness and winding up orders

This was a decision of a single Judge of the High Court, Justice Heydon. His Honour refused the relief sought by the appellants, namely relief in the nature of certiorari to quash orders made by a Judge of the Federal Court reinstating deregistered companies and then ordering that such companies be wound up.

The facts of the case were as follows. In 1997, two companies were incorporated. Neither company paid any income tax, and in 2006, the Australian Taxation Office made known its intention to audit a number of companies associated with a director of the companies. Shortly thereafter, the two companies lodged applications with ASIC to be deregistered administratively pursuant to the provisions of the *Corporations Act 2001.* The Australian Taxation Office was not given notice of the applications made to ASIC, and it did not become aware of the applications until after they succeeded and the companies became deregistered. Upon becoming so aware, the Deputy Commissioner of Taxation filed an application in the Federal Court seeking orders that ASIC reinstate both companies to the register pursuant to section 601AH(2) of the *Corporations Act 2001*, and that upon reinstatement both companies be wound up and liquidators appointed. The Federal Court granted those orders.

The two companies appealed on two bases. First, they argued that the Federal Court only had jurisdiction to wind up the companies if they actually existed, and at the time when the Federal Court orders were made, the companies had been deregistered and were not yet reregistered. Second and alternatively, the companies argued that there had been a breach of natural justice as the companies themselves had not had an opportunity to be heard on the winding up applications. Justice Heydon rejected both bases of appeal.

In relation to the companies' first argument, his Honour held that there is nothing in section 601AH of the *Corporations Act 2001* which prevents a winding up order being made with effect from the date on which a company is reinstated. Once the reinstatement took place, the companies were once again companies within the meaning of the *Corporations Act 2001* and they were then liable to be wound up under orders which, although made earlier, did not come into operation until the moment of reinstatement. Further, Justice Heydon held that section 601AH(5) of the Act did not preclude a court order for reinstatement being made which has the effect that a company in its reinstated form differs from its old form in that it is a company in liquidation in its new form.

In relation to the companies' second argument concerning natural justice, Justice Heydon held that at the time when the merits of the reinstatement and winding up applications were being heard, the companies in question did not exist. Further, his Honour observed that a director of the companies did have an opportunity to participate fully in the hearing, and he did so, and as such there would have been no real difference in the arguments presented even if the companies themselves had had an opportunity to be heard. Accordingly, Justice Heydon rejected the natural justice argument.

Finally, Justice Heydon ordered that a director of the companies was to pay their costs of the proceedings, as he was the "moving force" behind the proceedings and "it is wrong that other persons interested in the assets of the companies should be responsible for the costs which have been incurred as a result of the tactical decisions he has made to institute and continue those proceedings."

Insurance and Professional Negligence

Case Note by Alexandra Golding

Donmez v Neissa & Anor [2012] VSC 73

Background

1. The plaintiff seeks damages for personal injury allegedly arising out of dental treatment performed by the first defendant on 23 December 2004 at the surgery of the second defendant.

2. The plaintiff alleges that during the removal of her left molar, which had been causing her pain, the adjacent tooth was also damaged. Further, she alleges that when she was in the dental chair, her head was held by a dental nurse in an extended position for a prolonged period of time. The plaintiff claims to have suffered damage to the adjacent tooth and an injury to her neck caused by the prolonged extension of her neck.

3. The plaintiff said she had consulted a general practitioner on 1 April 2005 and was told that her neck pain was as a result of stress. The plaintiff was dealing with a number of issues at that time, including a serious injury to her son, a recent move to Australia, insecurity as to her status as an asylum seeker, and other personal and financial issues.

4. She consulted an orthopaedic surgeon in March 2008, who told her that the pain to her neck was the result of an injury to it, and she needed an x-ray. The plaintiff stated that was when she realised her neck pain was caused by the dental procedure in December 2004.

5. She then consulted solicitors and proceedings were issued in December 2008, served on the second defendant on 4 December 2009 and on the first defendant on 28 May 2010.

6. The defendants pleaded that the cause of action was statute barred and issued a summons for summary judgement. In response, the plaintiff issued an application seeking a declaration that her claim for damages for personal injury was not statute barred, or alternatively, an order seeking an extension of time. This judgement of Kaye J deals with the limitation issues.

Limitation Period

7. Section 27D (1) of the *Limitations of Actions Act* 1958 (Vic) (**the Act**) provides that an action for personal injury shall not be brought after expiration of whichever of the following periods is first to expire namely, 3 years from the date on which the cause of action is discoverable by the plaintiff, or 12 years from the date of the act alleged to have resulted in the injury.

8. Section 27F of the Act defines when an action is “discoverable” for the purposes of section 27D(1) being when a person knows, or ought to have known of all of the following facts:

(a) The fact that death or personal injury has occurred;

(b) The fact that death or personal injury was caused by the fault of the defendant; and

(c) In the case of personal injury, the fact that the injury was sufficiently serious to justify the bringing of a cause of action.

9. Section 27F(2) states that a person ought to know of a fact at a particular date if the fact would have been ascertained if the person had taken all reasonable steps before that date to ascertain the fact.

10. Kaye J noted that such an application is convenient and practical and it is in the best interests of the parties for the limitation issue to be determined first, without the parties being subjected to the cost of a trial on all issues.

11. The defendants dispute the existence of the alleged neck injury. However, his Honour stated that the question of whether an action is statute barred must be based (somewhat artificially) on an assumption that the plaintiff has suffered the injury alleged. Logically, the issues of liability, causation and injury are anterior to the issue of limitations.

12. The defendants’ counsel submitted that the plaintiff knew of the damage to her tooth caused by the first defendant as of December 2004 and that was sufficient knowledge for the purposes of section 27F(1)(a) and (b). His Honour did not find it necessary to rule on this issue as he was satisfied that the defendants could not prove, on the balance of probabilities, knowledge by the plaintiff of the seriousness of the injury, as required bysection 27F(c).

13. His Honour accepted the plaintiff’s evidence that her general practitioner told her in 2005 that her neck pain was as a result of stress. Therefore, his Honour held that the plaintiff did not know of the seriousness of her injury until she consulted the specialist in 2008. Consequently,her action was not statute barred.

14. His Honour went onto consider what the defendants would have had to prove under section 27F(2) had he not accepted the plaintiff's evidence about the 2005 general practitioner consultation. His Honour said he was satisfied that if the plaintiff had taken reasonable steps, she would have consulted a medical practitioner about the neck pain before December 2005.

15. However, his Honour considered it problematical as to whether the plaintiff would have received the advice she ultimately did receive in 2008 from the specialist at an earlier consultation and he was not prepared to speculate as to what advice she may have received.

Extension Application

16. His Honour went on to consider the extension application, even though it was not strictly necessary, given his conclusion as to the expiry of the limitation period.

17. Section 27K of the Act provides that the court may order an extension of the limitation period if it decides "that it is just and equitable to do so".

18. Section 27L specifies the matters the court may take into account in deciding whether to grant an extension of the limitation period. Those matters include the reason(s) for the delay in issuing the action. His Honour noted that the plaintiff issued within 4 years of the dental treatment and consulted solicitors soon after she saw the specialist, once she was aware of the injury to her neck, which was allegedly caused by the dental treatment. His Honour noted the delay of 4 years was not exceptional.

19. In addition, the defendants had not filed an affidavit deposing to any particular prejudice caused to the conduct of their defence by the delay.

20. His Honour stated that he would have granted an extension of time to 18 December 2008, if it had been necessary.