CommBar News

THE COMMERCIAL BAR ASSOCIATION

Leading Strategically ™

27 May 2011

Newsletter No. 23

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Forthcoming Events and Updates

Commercial Bar Association

10 August 2011	Dinner in honour of the Honourable David Byrne QC. To be held at the Essoign.

Commercial Bar Association - Construction Law Section CPD Seminars

2 August 2011	Topic to be Confirmed. Senior Member Riegler, member in charge of the Domestic Building List, VCAT.
21 September 2011	**"Stay of Arbitral Proceedings Pursuant to International Arbitration Act"** Jeff Gleeson SC and Nick Pane.
24 October 2011	**"Contractual termination mechanisms and the concurrent exercise or non-exercise of common law rights to terminate – caught between the Scylla and Charybdis".** Andrew Archer.

2011 National Administrative Law Forum
Democracy, participation and administrative law
21 – 22 July 2011
Hotel Realm, 18 National Circuit, Canberra, ACT
For inquiries about the program, contact: Robert Orr on (02) 62537129 or John McMillan on (02) 62399124.

2011 Annual Public Law Weekend
10 years on from September 11: the impact on Public law
9 – 10 September 2011
Calls for Expressions of Interest

Society of Construction Law Australia
scl.org.au

Society of Construction Law Australia – 2nd Annual Conference: "Rethinking Adversarialism", 5-7 August 2011, Sofitel Central, Brisbane. Speakers include Sir Laurence Street, The Hon. Ian Callinan, Colin Wall (Hong Kong), John Hinchey (Atlanta).

President’s Report

I would like to highlight a number of forthcoming CommBar activities to CommBar Members.

CommBar is planning to host a dinner in honour of David Byrne QC on 10 August 2011 in the Essoign Club. Members are encouraged to get in early and organise a table. A Notice with details of the Dinner will be circulated to Members in June 2011.

CommBar’s 2011 Cocktail Event is being planned for mid September 2011, hopefully again in the Supreme Court Library. Details are yet to be finalised and await a date being locked in with the Supreme Court. Members should keep an eye out for details, and commit to attending as soon as the notice of the Dinner is given, in about early July 2011.

I also note at the Section Head’s Meeting on 2 March 2011 I mentioned that the Executive of CommBar was currently considering an increase in the subscription fees. At its Meeting on 12 May 2011 CommBar Executive resolved to raise the CommBar Subscriptions to $60 for Senior Members and to $30 for Members under three years call. I expect that Members appreciate that they get very good value for their relatively modest Membership subscription.

CommBar notes the loss of Maryanne Loughnan SC as Chair of the Banking and Finance Section of CommBar. Maryanne has made an outstanding contribution as Chair of the Banking and Finance Section for many years however the commitments of Maryanne’s heavy and ever expanding practise in that area have resulted in her relinquishing the role of Section Chair.

The new Officeholders of the Banking & Finance Law Section are, Chair: Andrew Kirby, Secretary: Garry Moffatt, Co-Secretaries: Samantha Cipriano and Thomas Warner and Monitor, David Kim.

CommBar also notes with some pride that Stephen McLeish, CommBar’s Chair of Public Law has recently been appointed Solicitor General for the State of Victoria. CommBar congratulated Stephen and wishes him all the best in his most important new role. CommBar also acknowledges Stephen’s excellent contribution over many years as Chair of the Public Law Section of CommBar.

Richard Niall SC had agreed to take over as Head of the Public Law Section and he will be ably assisted by Richard Wilson as Secretary, Emrys Nekvapil as Assistant Secretary and Maree Norton as Monitor.

Finally, I note with concern the Chief Justice’s recent announcement that she will not preside over the Silk appointment process after year due to the increasing load likely to be imposed on the Chief Justice’s position next year with the introduction of a more autonomous Court administration and funding system. While I applaud the Government for taking initiatives which should improve Court administration and assist the Court in relation to financial administration, I believe that it is a matter of regret for the Victorian Bar the Chief Justice will not be appointing Silks from 2012 and observe that no better system than the present one appears to have been identified.

May 2011
John Digby
President

CommBar Event at the Supreme Court Library

October 13th 2010

Banking and Finance

Case Note by David Kim

***Leveraged Equities Limited v Goodridge* [2011] FCAFC 3**

The Full Court of the Federal Court of Australia has held that a borrower is able to prospectively authorise the lender to enter into a novation of their margin lending agreement with a third party, provided that the terms of the agreement give the lender that right. In doing so, the Full Court highlighted the importance of clear and express drafting of transaction documents.

Background

In 2003, the respondent, Mr Goodridge, entered into a Margin Lending and Security Agreement ("**LSA**") with the Macquarie Bank ("**Macquarie**"). The LSA contained provisions allowing Macquarie to make a margin call on notice, and authorising it to sell securities provided by Mr Goodridge in the event of his failure to satisfy a margin call.

In January 2009, Macquarie sold its margin loan book to Leveraged Equities Limited ("**LE**"). The loan book included the margin loan to Mr Goodridge.

On 23 February 2009, LE made margin calls on Mr Goodridge. Mr Goodright was given approximately 24 hours to comply. He failed to meet the margin calls and LE sold the whole of Mr Goodridge's securities he had provided to Macquarie.

Mr Goodridge issued proceedings in the Federal Court claiming, among other things, that:

1. LE did not have the authority to:
   a. impose a compliance period for the margin calls of less than 3 business days; and
   b. sell Mr Goodridge's securities prior to the expiration of the compliance period for the margin calls.
   ("**margin call case**")

2. Macquarie did not have authority to novate or assign its rights and powers under the LSA to LE ("transaction case").

Margin call case

The margin call case focused on the construction of the LSA.[1] The main issue was whether the provisions of the LSA conferred discretion upon the lender to shorten the period that the borrower had to comply with a margin call to a period less than 3 business days.[2] Mr Goodridge argued that the LSA did

[1] See *Leveraged Equities Limited v Goodridge* [2011] FCAFC 3, [30] – [35] where Jacobson J sets out the issues arising out of the margin call case.
[2] Ibid [4] per Stone J, [15] and [123] per Jacobson J.

not authorise LE to shorten the period of compliance. LE disputed Mr Goodridge's assertion and further argued that the LSA authorised LE to sell the borrower's securities to meet any shortfall, whether or not the time for compliance of a margin call had expired.[3]

The trial judge, Rares J, ruled in favour of Mr Goodridge holding that the LSA did not authorise the lender to specify a period of less than 3 business days to comply with a margin call.[4] His Honour also held that the proper construction of the LSA was that the lender's right to sell the borrower's securities only arose if the borrower had failed to comply with the margin call within the due time.[5]

Transaction case

The transaction case essentially concerned whether the LSA authorised Macquarie to novate its rights and powers to LE without obtaining further consent from Mr Goodridge, and whether if Mr Goodridge had given prospective consent under the LSA, the transaction documents were effective to constitute a novation.[6] Further issue was whether the transaction documents were effective to assign Macquarie's rights and powers under the LSA to LE.[7]

Rares J held that the transaction documents under which Macquarie's margin loan book was sold to LE were ineffective to novate the LSA to LE. His Honour held that a party to a contract could not prospectively authorise another party to novate the contract. Applying this principle to the case, Macquarie could not novate the LSA to LE where Mr Goodridge had no participation in, or knowledge of, the novation.

His Honour also held that given the terms of the LSA, the LSA and the rights attached to it were incapable of assignment.

The Full Court's decision

The Full Court overturned all of the trial judge's findings made against LE. In doing so, the Full Court stated that much of the issues regarding the construction of the terms of the LSA would have been avoided had the document been competently drafted.[8] Stone J stated that a more precise use of language in the LSA may have avoided what became an expensive and time consuming piece litigation.[9]

With respect to the margin call case, the Full Court found that the LSA did authorise the lender to specify a period for compliance of less than 3 business days.[10] In doing so, the Court cited, it seems with approval, Canadian authorities stating that where there has been a demand for payment pursuant to margin accounts or margin calls, the principle that a debtor must be given reasonable notice and time to comply does not apply.[11] The Court did however note that the principal consideration was the construction of the document in question.[12] The Court found that the LSA also provided for the lender to sell the borrower's securities prior to the expiration of the compliance period.

With respect to the transaction case, the Court held that there were clear judicial authorities supporting the position that it was possible for a contracting party to prospectively authorise a novation to be made by another party without further consent. What was required was a clear intention by the parties to do so under the relevant transaction documents. The Court found that the provisions of the LSA allowed the borrower, Mr Goodridge, to give prospective consent to the novation of the LSA. In doing so, the Court

[3] Ibid [129].
[4] Ibid [123] per Jacobson J citing Rares J at [64] – [65] of the trial judge's judgment.
[5] Ibid [130].
[6] Ibid [36] – [41] where Jacobson J sets out the issues arising out of the transaction case.
[7] Ibid [38].
[8] Ibid [3] per Stone J, [152] per Jacobson J.
[9] Ibid [11] per Stone J. Jacobson J made similar sentiments at [152].
[10] Ibid [6] per Stone J, [168] – [172] per Jacobson J.
[11] Ibid [174] – [178] per Jacobson J citing *Janic v TD Waterhouse Investor Services (Canada) Inc* (2001) 2001 CarswellOnt 1268 (Ont. S.C.J.) and *Paciorka v TD Waterhouse* (2007) 2007 CarswellOnt 4717 (Ont. S.C.J.).
[12] Ibid [179] per Jacobson J.

noted that the decision of the trial judge had been strongly criticised by the High Court of England and Wales in *Habibsons Bank Ltd v Standard Chartered Bank (Hong Kong)* [2010] EWHC 702.[13]

The Full Court also rejected the trial judge's finding that the margin lending agreement could not be assigned. The Court held that the rights under the LSA could be assigned as:

1. The trial judge failed to properly take into account provisions of the LSA, which expressly contemplated and allowed Macquarie to assign all or any of its rights, powers and obligations under the LSA.[14]

2. The trial judge's determination that Macquarie's rights were incapable of assignment was contrary to principles established in well-established authorities.[15]

3. The issue before the Court was not whether all of the rights given to Macquarie were capable of assignment, but whether the rights relied upon by LE were capable of assignment. The rights assigned to LE were choses in action that were capable of assignment and were not under any exceptions.[16]

4. Even if the transaction documents did not effect novation of the LSA, Macquarie retained the obligation to lend further funds under the LSA, while LE held the right to give notice of a margin call and exercise the power of sale on default.[17]

Conclusion

This case highlights the need for transaction documents to be drafted with sufficient clarity, so as to avoid any uncertainty and confusion regarding the operation of the financial arrangement, and the respective rights and obligations of the parties. Terms contained in these documents must also have consistent meaning throughout the documentation, so that parties are clear about when their rights and obligations arise.

[13] Ibid [313] – [314] per Jacobson J.
[14] Ibid [357] – [358] per Jacobson J.
[15] Ibid [360] – [370] per Jacobson J.
[16] Ibid [371] – [375] per Jacobson J.
[17] Ibid [376] – [379] per Jacobson J.

Construction Law Section

Case Notes by Caroline Kirton

Novawest Contracting Pty Ltd v Altona Industrial Centre Pty Ltd
[2011] VSCA 104 (Unreported, Tate JA and Hargrave AJA, 2 May 2011)

This was an application for leave to appeal an interlocutory decision of a Judge of the County Court (Ginnane J). The applicant was a building and construction contractor ('the Builder'). The respondent was the owner and developer of land in Altona ('the Owner').

The Owner engaged the Builder to perform construction work at the land in Altona. There were two contracts ('the Primary Contract' and 'the Further Contract'), each of which incorporated General Conditions of Contract (AS 2124-1992).

A dispute arose and the Builder sued the Owner in the County Court claiming damages for breach of contract and amounts due on a quantum meruit, in relation to the Primary Contract.

The Owner counterclaimed for liquidated damages for the Builder's failure to bring the works to practical completion by the extended dates for practical completion for both contracts. The Owner pleaded that the extended dates for practical completion were dates "earlier than 25 March 2008". In the case of the Further Contract the Owner claimed that the Builder had failed to complete the works at all. The Counterclaim pleaded that further and better particulars of the "extended date for practical completion" for each of the contracts would be provided after discovery and inspection. The Counterclaim also referred to an affidavit of the Superintendent under the contracts filed in the proceeding. In that affidavit the Superintendant deposed that he no longer worked for the employer who had employed him at the time that he had acted as Superintendant under the contracts. He said that he did not remember the exact dates that he had extended the times for practical completion under the contracts, other than that the dates were before 28 March 2008.

The Builder applied to a judge of the County Court pursuant to Rule 23.02(a) and (c) of the *County Court Rules of Civil Procedure* to strike out the Counterclaim relating to the liquidated damages claim. This was on the basis that the Owner had not pleaded the exact extended date for practical completion of each of the contracts. In response the Owner served a Notice to Produce on the Applicant, seeking the production of documents relevant to the extended date for practical completion, at the hearing of the strike out summons. The Builder then issued a summons seeking to set aside the Notice to Produce.

The trial judge ordered production and inspection of the documents pursuant to the Owner's Notice to Produce. He also gave leave to the Owner to file and serve an amended Counterclaim, after considering any information received following inspection of the documents produced by the Builder.

The Builder then sought leave to appeal the decisions of the trial judge.

Hargrave AJA (with whom Tate JA agreed) held that the Counterclaim already disclosed a cause of action which was adequately pleaded. There were sufficient material facts to establish that some amount of liquidated damages was due by the Builder, even though the precise calculation of the amount would depend upon identification of the extended date for practical completion. His Honour said:-

> "The respondent has unambiguously pleaded that this date was earlier than 25 March 2008, and that practical completion under the primary contract did not occur until 20 August 2008 and has not yet occurred under the further contract"([13]).

In his Honour's opinion the course adopted by the trial judge was a "just, sensible and practical one" in not striking out the liquidated damages claim ([14]).

In relation the Builder's application to set the Owner's Notice to Produce aside, his Honour rejected the Builder's argument that it was a 'fishing' notice to produce. His Honour also said that it was "objectively probable" that the Builder would have documents which "either establish or evidence the date for practical completion" ([23]).

His Honour concluded that the decisions appealed from were not attended with sufficient doubt to warrant appellant intervention. His Honour also concluded that it would have been:-

> "...wholly unjust if the respondent was prohibited from raising a counterclaim for liquidated damages under the same contract, on the sole ground that it is unable to specify a date, the date for practical completion, which ought to be ascertainable if the notice to produce is diligently complied with" ([26]).

His Honour noted that the Owner had other avenues open to it to discover the extended date for practical completion, such as third party discovery or subpoenas. His Honour also noted that ultimately the trial judge may have to determine the date, if the exact date was not available from any other source.

Accordingly the Builder's application for leave to appeal was refused.

Mrocki & Anor v Mountview Prestige Homes Pty Ltd

[2011] VSCA 73 (Unreported, Harper JA, Kyrou AJA, 18 March 2011**)**

Case Note by Caroline Kirton

This matter was an application for leave to appeal from a decision of a trial judge (Dixon J). His Honour had allowed an appeal from a decision of the Victorian Civil and Administrative Tribunal ('VCAT'), but had refused to remit the claim to VCAT, on the basis that the Applicant owners' ('the Owners') claim was bound to fail.

The dispute in VCAT related to the construction in Brighton of two luxury apartments with swimming pools and a shared basement. The apartments and the pools had been constructed with many defects.

The Owners had entered into a written contract with the Respondent builder ('the Builder') in November 2006 ('the Agreement'). The form of the Agreement was a Housing Industry Association 'cost plus' form, which was provided by the Builder with a number of amendments. The Owners were to pay to the Builder a fixed fee of $247,500 and to pay all contractors directly. The Agreement included Builder's warranties which reflected the warranties in Section 8 of the *Domestic Building Contracts Act 1995 (Vic).* The drawings incorporated into the Agreement were preliminary drawings only. Furthermore there were no specifications, engineering drawings or engineering computations forming part of the Agreement. According to expert evidence at the VCAT hearing, it would have been impossible to construct the apartment building from the drawings appended to the Agreement.

VCAT found that the Agreement was void for uncertainty. It also found that the Builder's obligation was to supervise the building work rather than to take responsibility for the construction of the apartments. It found that the Builder had not breached its obligation to supervise the works and that it was not responsible for the defects in construction.

On the appeal of VCAT's decision, his Honour found that the Agreement was not void for uncertainty and that the Agreement had required the Builder to manage the project. His Honour however refused to remit the matter to VCAT, as the Tribunal had found that the Builder's supervision of the project had not caused the defects and consequently the claim was bound to fail.

The Owners sought leave to appeal part of his Honour's decision, that the Agreement had required the Builder to provide contract management services for the project only and not construction work ('the Decision').

The Court of Appeal held that the Decision was sufficiently uncertain to allow the appeal. The Court of Appeal accepted the arguments of the Owners, inter alia, that:-

- The Builder had not inserted any special condition into the Agreement specifying that its obligation was to manage the project rather than to build the apartments. The Builder had made a number of other amendments to the Agreement.
- The fact that the Owners were to pay the contractors did not alter the provisions in the Agreement that the Builder was to build the apartments (apart from some paving and landscaping works).
- His Honour had erred in relying on post-contractual conduct in interpreting the contract.
- His Honour had erred in relying upon contractual allocation of responsibility under the Agreement in interpreting the Agreement.

The Court of Appeal also accepted that there would be substantial injustice if the Decision was to remain. The Court was influenced by the fact that the practical effect of the Decision was that in order to rectify the defects, the Owners would have to investigate each of the causes of the defects themselves. This would require the Owners to have to exercise their rights against individual contractors, which would take significantly more time than if they were able to exercise their rights against the Builder.

The Court of Appeal was also influenced by the fact that the result of the Decision would be to make the Owners 'owner builders'. This meant that if they wanted to sell the apartments within six years, they had to comply with the requirement of Section 137B of the *Building Act 1983 (Vic)* in relation to building insurance and the provision of statutory warranties.

Accordingly leave to appeal was granted.

Brirek Industries Pty Ltd v McKenzie Group Consulting (Vic) Pty Ltd **[2011] VCC 294 (Unreported, Shelton J, 1 March 2011)**

Case Note by Caroline Kirton

This case concerned the construction of a two storey office block with ground level parking in Southbank. The Plaintiff, a builder developer, sued the building surveyor that had initially been engaged on the project. The Plaintiff claimed that there was excessive delay caused by the gross incompetence of the building surveyor in failing to issue the building permit for the project.

The Plaintiff entered into a contract of sale to purchase the property in late 2001. The contract of sale was conditional upon the vendor providing a planning permit and a building permit for the project prior to settlement.

Settlement took place in September 2002 with the vendor providing the planning permit but not the building permit. Apparently prior to settlement one of the Vendor's directors had assured the Plaintiff's directors that the building permit "was only a few days away".

The Plaintiff then agreed to engage Bailey Heights Pty Ltd, a company related to one of the vendor's directors, to undertake the construction works. The construction works then commenced in October 2002.

The Defendant then issued various staged building permits. Each had mistakes on the permit and disputes arose with the Plaintiff. By the time the Defendant had issued the stage 6 and 7 building permits, the planning permit had expired in October 2003 and could not be extended. The Plaintiff's financier also refused to advance any funds until a full building permit had been issued. Consequently the construction works then stopped.

In October 2005 the Plaintiff engaged another building surveyor for the project. In November 2006 a new planning permit was issued for the project by the City of Port Phillip. In February 2007 the Plaintiff entered into a building contract with another builder to complete the project. A full building permit was issued in April 2007 and construction was finally completed in October 2007. The Plaintiff finally sold the property in July 2008, six and a half years after purchasing it.

The Plaintiff had three causes of action against the Defendant. Two for alleged breaches of separate contracts and one for negligence.

The claim for breach of an alleged contract made in 2002 was dismissed on the basis that there was no contract made between the Plaintiff and the Defendant for building surveying services in late 2002.

The claim for breach of a contract conceded by the Defendant to have been made in April 2004, was also dismissed. The Plaintiff claimed that there had been a breach of the April 2004 contract by reason of the Defendant issuing the Stage 6 and 7 building permits on 29 April 2004 and 7 May 2004, when there was no valid planning permit in existence and consequently in breach of the *Building Act 1993 (Vic) ('the Act')*. Leave to rely upon breach of the April 2004 contract was given to the Plaintiff during the course of the trial on 2 September 2010. The Defendant relied on Section 5(1)(a) of the *Limitation of Actions Act 1958 (Vic)*, which imposes a six year limitation period on actions in contract from the date on which the cause of action accrued. The Defendant argued that the Plaintiff could therefore only rely on breaches of the April 2004 contract which had occurred after September 2004.

The Plaintiff argued that Section 134 of the *Act* extended the time for making claims for breach of contract, for claims relating to building work which fell within Section 129 of the *Act*, to ten years.

His Honour concluded that Section 134 of the *Act* only applied to claims in negligence in relation to defective work and did not extend the six year limitation period to contractual claims. His Honour said in relation to Section 134:-

> *"Its purpose is to limit the common law position where the limitation period only runs in negligence from when defects in the building works were first known or manifest"*[at 77].
>
> *"...it appears clear to me to that that the mischief which s.134 addresses is the open-ended potential liability in negligence in respect of defective workmanship. It is not concerned with breach of contract where the cause of action arises upon the breach"* [at 78].

Accordingly his Honour held that the Plaintiff could only rely upon breaches of the April 2004 contract which had occurred after 2 September 2004 and before the Defendant had terminated its services in September 2005. The Court found that there were no breaches during this period and consequently this claim was dismissed.

The Plaintiff's claim in negligence also failed. The Plaintiff's claim was for pure economic loss. His Honour found that the Defendant did not owe the Plaintiff a duty of care. The Plaintiff was found to be in no sense vulnerable. Its principal director was an experienced builder and developer and the property was a commercial property. Furthermore the Plaintiff was seeking to protect its commercial financial interests only and defective works were not an issue.

Accordingly the Plaintiff was found to have no cause of action against the Plaintiff and judgment was entered for the Defendant.

Insurance and Professional Negligence

Case Note by Alex Golding

***Samenic Ltd v APM Group (Aust) Pty Ltd & Ors* [2011] VSC 194**

This case concerned an objection to production under subpoena of a fire investigator's report on the grounds of legal advice privilege under s 118 of the *Evidence Act 2008 (Vic)*. No claim was made for litigation privilege. Mukhtar AsJ upheld the objection to production.

The case arose out of a fire that occurred on 3 November 2004 at the Melbourne Central cinema complex during construction. The first defendant was engaged by the plaintiffs to fit out the cinema. The second defendant (who filed the subpoena) was a subcontractor undertaking the electrical installations work, including some temporary lighting. The third defendant (who objected to the subpoena) was the project manager for the redevelopment of the site.

The allegations against the second defendant were that a temporary halogen floodlight, which had not been adequately secured, had fallen and started the fire. The allegations against the third defendant included that it had been careless in not installing smoke detectors and not ensuring that an automatic sprinkler system and fire hoses and reels were operational.

The third defendant had notified its insurer on the day of the fire. It appeared that the insurer immediately appointed loss adjusters, who in turn contacted Neil Barnes of Fire Scene Examination Pty Ltd to inspect the scene that day and investigate the cause of the fire.

On 4 November 2004, the relevant insurance claims officer was told by the loss adjuster that Mr Barnes had attended the site the previous day. She told the loss adjuster that she would be retaining lawyers to advise in relation to the third defendant's potential liabilities and any claims that may be brought against it in relation to the fire. Further she said the lawyer "*would formally retain [the loss adjusters] and the expert and would request reports from him and the expert for the purpose of providing her advice*".

The lawyers were retained by the insurer on 5 November 2004. The lawyers then retained the loss adjusters to investigate the fire and obtain an expert report from Mr Barnes.

Mr Barnes produced a report dated 5 November 2004 ("the report"), which was a confidential exhibit in this application. The report was expressed to be prepared for the underwriters care of the lawyers. The report was first sent to the lawyers by the loss adjusters by letter dated 15 November 2004.

His Honour set out the following question to be answered: "*Does this subpoena result in the disclosure of the contents of a confidential document prepared by another person (the subpoenaed party) for the dominant purpose of the lawyer providing legal advice to the client (the insurer)?"*

His Honour said he had little doubt that the report was confidential but did have some doubt as to whether the affidavit evidence was of sufficient detail and strength to establish the dominant purpose of the report was for legal advice, where it was apparent it was also required by the insurer for its own business purposes. Ultimately, his Honour erred on the side of protecting the important legal right of legal professional privilege.

His Honour referred to various authorities on legal professional privilege and set out 5 concepts which emerge from those cases:

(a) The doctrine of legal professional privilege must not be sabotaged by rigid adherence to form that does not reflect the complexities of modern day commerce;

(b) The concept of "legal advice" is fairly wide and includes advising a client what should be done prudently in a relevant legal context;

(c) The existence of legal professional privilege is not established merely by the use of a verbal formula;

(d) The ordinary meaning of "*dominant*" means the purpose which was the ruling, prevailing or most influential. An appropriate starting point is to ask what was the intended use of the document? This is a question of fact to be determined objectively; and

(e) A claim for privilege will not succeed if the document is a commercial document or has been brought into existence in the ordinary course of business. In the insurance context there is no privilege if the document was to allow an insurer to make a decision in the ordinary course of its insurance business as to whether or not to grant indemnity.

His Honour referred to his own judgement in *Brunswick Hill Apartments Pty Ltd v CGU Insurance Limited*[18]where he had remarked that documents are not privileged merely because one of their intended destinations is the desk of a lawyer. His Honour stated that what the "*Court is particularly alert to is whether a solicitor has been retained as a device to be interposed between the insurer and the loss adjuster and expert to present an appearance in form of a relationship of privilege, but in substance using the solicitor as nothing more than as a conduit for information: see Nickmar*."[19]

His Honour was not concerned that the loss adjuster and Mr Barnes had been retained 2 days before the lawyers. His Honour accepted that is was crucial for the fire scene to be investigated on the day the fire had occurred and commented that it would have in fact aroused suspicion if the first appointed had been the lawyers. His Honour accepted in this instance that the lawyers had been genuinely engaged and not merely as a device to attract privilege.

His Honour held that the dominant, but not sole, purpose of the report was to obtain legal advice. His Honour stated that "*There are clients who because of their exposure in trade and commerce will not make a move without legal guidance. And that is what I judge has happened here*."

Comment

This decision exposes a conundrum for underwriters of when is the appropriate time to appoint lawyers in notifications concerning fires and similar occurrences? If lawyers are appointed immediately upon notification this may be seen as merely a "device". On the other hand, if lawyers are not immediately appointed, the underwriters run the risk of any report generated by the fire scene expert not being protected from production.

[18] [2010] VSC 532
[19] Nickmar Pty Ltd v Preservatrice Skandia Insurance Ltd (1985) 3 NSWLR 44

Insurance and Professional Negligence

Case Note by Clive Madder

Global Process Systems Inc& Anor v Syaraikat Takaful Malaysia Berhad

[2011] UKSC 5

The United Kingdom Supreme Court has recently decided a case interpreting the ‘inherent vice’ exclusion under the widely used Institute Cargo Clauses (A) policy and the equivalent exclusion under the *Marine Insurance Act 1906* (UK) (‘MIA’) in considering whether insurance coverage was available by reason of a ‘peril of the sea’.

Because the *Marine Insurance Act 1909* (Cth) is for all intents and purposes identical to the MIA, and because of the wide customary usage of the Institute Cargo Clauses, the case is important to all practitioners in the fields of marine insurance and international trade law.

The subject matter of the insurance was an oil rig which was to be loaded on a towing barge in Galveston, United States to Lumut in Malaysia. When the barge arrived at Saldanha Bay near Cape Town on 28 October 2005, repairs were undertaken on the oil rig to alleviate fatigue cracking on the legs. On 4 November 2005, the starboard leg broke off the oilrig and fell into the sea. The following evening two other legs broke off. The assured claimed under its marine insurance policy (which incorporated the Institute Cargo Clauses (A)) for the loss of the three legs.

The legs were lost because of metal fatigue: critically, this involves an initial cracking; propagation of the cracking; and finally the complete fracture of the component legs. The stresses that generated the metal fatigue in this instance were as a result of the height and direction of the waves and their effect on the rolling and pitching of the barge and therefore the oil rig. The weather experienced during the voyage was within reasonable contemplation and was not extraordinary.

Both s 55(1) of the MIA and its Australian equivalent provide:

> ‘Subject to the provisions of this Act, and unless the policy otherwise provides, the insurer is not liable for any loss proximately caused by a peril insured against, but, subject as aforesaid, he is not liable for any loss which is not proximately caused by a peril insured against.

S 55(2)(c) and its Australian equivalent contain the following exception:

> ‘Unless the policy otherwise provides, the insurer is not liable for ordinary wear and tear, ordinary leakage and breakage, inherent vice or nature of the subject matter insured, or for any loss proximately cause by rats or vermin, or for any injury to machinery not proximately caused by maritime perils’

Institute Cargo Clauses (A) is an ‘all risks’ policy subject to limited exclusions including an exclusion for inherent vice (cl 4.4).

The trial judge found that the insurers (who bore the burden) proved that ‘the proximate cause of the loss was the fact that the legs were not capable of withstanding the normal incidents of the insured voyage from Galveston to Lumut, including the weather reasonably to be expected.’ As such, his Honour found that the proximate cause was inherent vice within the meaning of the exception in the policy.

In contrast, the Court of Appeal found that the proximate cause of the loss was a 'leg breaking wave' which broke off the starboard leg, causing greater stresses on the remaining legs, which then also fell off. On that basis, the Court of Appeal found that the proximate cause of the loss was a fortuitous accident (effectively a peril of the sea), and found in favour of the insured.

On appeal, the Supreme Court needed to decide whether the proximate cause of the loss fell within the inherent vice exception or was a peril of the sea (covering the loss).

Both parties relied on Lord Diplock's consideration of 'inherent vice' in *Soya GmbH Mainz Kommanditgesellschaft v White* [1983] 1 Lloyd's Rep 122 ('*Soya*'):

> 'This phrase [...] where it is used in section 55(2)(c) refers to a peril by which a loss is proximately caused; it is not descriptive of the loss itself. It means the risk of deterioration of the goods shipped as a result of their natural behaviour in the ordinary course of the contemplated voyage without the intervention of any fortuitous external accident or casualty'.

The insurers argued that in this instance the inherent vice was the oil rig's internal risk of deterioration; and that such risk eventuated and was the proximate cause of the ultimate failure of the oil rig's legs because the goods were simply not capable of withstanding the normal incidents of the insured voyage, including the weather reasonably to be expected. In support of that proposition, the insurers relied upon numerous authorities including Donaldson LJ's decision in the Court below in *Soya* and Moore Bick J's decision regarding the shipment of a transformer in *Mayban General Insurance v Alstom Power Plants Ltd* [2004] 2 Lloyd's Rep 609 ('*Mayban*').

The Supreme Court in separate judgments unanimously rejected the insurers' submission. Lord Saville pithily illustrated his criticism of such an analysis (at [27]):

> 'There is nothing to suggest that Lord Diplock was in agreement with the definition of inherent vice suggested by Donaldson LJ, namely that a loss is proximately caused by inherent vice if the natural behaviour of the goods is such that they suffer a loss in circumstances in which they are expected to be carried. Such a definition pays scant regard as to how and in what circumstances the loss occurred.'

In fact the trial judge had found that, whilst the failure of the rig's legs was very probable, it was not inevitable, and required a 'leg breaking' or 'final straw' stress. According to one of the experts at trial, a particular wave had to catch the leg 'just right' if the leg was to fail all the way around.

As noted, the weather itself was not extraordinary and was within reasonable contemplation. The term 'perils of the sea' in the MIA refers 'only to fortuitous accidents or casualties of the seas' and specifically does not include 'the ordinary action of the wind and waves'.[20] Nonetheless the Supreme Court rejected the trial judge's reasoning by implication that, because the weather was not extraordinary the proximate cause of the loss must have been an inherent vice of the cargo. In so doing, the Supreme Court unanimously rejected Moore Bick J's decision in *Mayban*.

None of the Court suggested that the inherent vice exclusion can apply only where the nature of the cargo is such that the loss is inevitable.[21] Rather, because there had been a fortuitous action of a particular wave bringing about the incident, the Supreme Court was able to conclude unanimously that the proximate cause of the loss was a peril of the sea.

Further, because there is no exception for the unseaworthiness of cargo under the Institute Cargo Clauses or the MIA, the 'inherent vice' exception should be not be given an interpretation which broadly would exclude an insurer's liability for cargo that was unable to withstand weather that was within reasonable contemplation for the voyage.

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[20] See the rules for construction contained in the Second Schedule to the MIA.
[21] Such a finding would be inconsistent with the Court of Appeal's decision in *Soya* [1982] 1 Lloyd's Rep 136, and also in *TM Noten BV v Harding* [1990] 2 Lloyds Rep 283.

Comment

The case is consistent with Australian High Court authority and in particular *Skandia Insurance Co Ltd v Skoljarev* (1979) 42 CLR 375 insofar as the UK Supreme Court has confirmed that there is no need for there to be an *extraordinary* fortuity for the proximate cause of a loss to be attributable to a peril of the sea. However, unlike the situation in *Skandia*, the Court was careful to articulate precisely how the loss occurred. The case may have been decided differently absent positive evidence of a fortuity.

Insurers wishing to rely on the inherent vice exclusion should be mindful to ensure that there is an absence of any fortuity causing loss or deterioration to the cargo, and should ensure they have evidence focusing on the inherent nature of the cargo causing its deterioration.

Public Law

Case Notes by Jonathan Wilkinson

Rowe v Electoral Commissioner [2010] HCA 46

Constitutional Law - Whether *Commonwealth Electoral Act* 1918 (Cth) ss 102(4), 102(4AA) and s 155 valid - Whether disqualified entitlement under ss 7 and 24 of Constitution that parliament be 'directly chosen by the people' - Application to declare legislation invalid

Summary

This was a significant case heard and decided urgently prior to the 2010 federal election, after which Prime Minister Julia Gillard returned to office.

The question before the High Court was whether sections 102(4), 102(4AA) and 155 of the *Commonwealth Electoral Act* 1918 (Cth) contravened sections 7 and 24 of the Constitution by prohibiting electoral enrolments lodged after 8pm on the date of the issue of an election writ, and transfers between divisional rolls after 8pm on the third working day after the issue of the writ.

The High Court held by majority of French CJ, Gummow, Bell and Crennan JJ (Hayne, Heydon and Kiefel JJ dissenting) that these legislative provisions contravened the requirements of the Constitution that the Commonwealth Parliament be "directly chosen by the people".

Background facts

The plaintiff Shannen Rowe turned 18 years old one month before the election writs were issued for the 2010 federal election. She submitted her electoral enrolment form four days after the writs were issued. Her fellow plaintiff Douglas Thompson lodged an application for a change of electoral division three days after the writs were issued. Under the old electoral rules prior to 2006, the plaintiffs' applications would have been routinely processed.

The plaintiffs' applications were not able to be processed, and they were consequently unable to vote at that election due to the following provisions of the *Commonwealth Electoral Act* 1918 (Cth):

- Section 102(4) – which precluded the processing of enrolment claims between the issue of the writs and the close of polling;
- Section 102(4AA) – which stopped transfers being processed between the close of the rolls and the close of polling; and
- Section 155 – which fixed the date for the close of the electoral roll at the third working day after the issue of the writs.

The plaintiffs were effectively barred from voting and sought a declaration from the High Court that the provisions were invalid for exceeding the limits imposed by ss 7 and 24 of the Constitution. The practical effect of a declaration was that the law would revert to the pre-2006 statutory grace period of seven days.

Meaning of 'directly chosen by the people'
French CJ held that members of parliament must be "directly chosen by the people" and referred to this as a "constitutional bedrock" [*Roach v Electoral Commissioner* (2007) 233 CLR 162]. In determining whether an electoral law is antagonistic to the constitutional mandate that parliament be directly chosen by the people, he held that it can only be justified if it serves the purpose of the constitutional mandate. The law's adverse legal or practical effect upon the exercise of the entitlement to vote must not be disproportionate to its advancement of the mandate. He further stated that the constitutional mandate has an evolving content which "…*being constitutional in character, although it may be subject to adjustment from time to time, cannot now be diminished."* [at 18]

No 'substantial reason'
Gummow and Bell JJ held there was no "substantial reason" (as set out in *Roach v Electoral Commissioner*) for the practical operation of the amendments in disqualifying large numbers of electors. The provisions did not respond to any material hazard, and its practical effect went beyond any advantage in preserving the integrity of the electoral process.

Crennan J held that the provisions were not necessary or appropriate for the protection of the integrity of the electoral rolls. There was no 'substantial reason' for disentitling a significant number of electors from exercising their right to vote for parliamentary representatives. The constitution required choice by the people of their representatives, and the provisions were not compatible with this imperative.

Decision
Accordingly, it was held that the offending provisions were invalid. They operated to disqualify electors from the entitlement to vote that was not reasonably appropriate and adapted to maintain the system of government outlined under the Constitution.

Public Law

Case Notes by Mark Costello

Hogan v Hinch [2011] HCA 4

The question before the High Court in *Hogan v Hinch* was whether it was constitutionally impermissible for a State parliament to empower a State court to suppress information relevant to proceedings before it and to conduct proceeding *in camera*.

Background

Section 42 of the *Serious Sex Offenders Monitoring Act 2005* (Vic) ("**Act**") empowered a court to suppress the publication of certain information relating to proceedings under the Act, including any information that might enable the offender to be identified. It was a precondition to the exercise of the suppression order power that the court be satisfied that it was in the public interest that such an order be made.

By subsection 42(3), it was an offence to publish any information the subject of a suppression order. Broadcaster Derryn Hinch was charged with publishing (on his website and at a protest rally) information the subject of a suppression order. The particular information published was said to be capable of enabling a sex offender to be identified.

Hinch challenged the constitutional validity of s 42 on three grounds:

1. That s 42 impermissibly diminished the institutional integrity of the courts of Victoria ("the ***Kable* ground**").
2. That suppression orders made under s 42 were contrary to a constitutional implication requiring proceedings is State and Federal courts to be conducted in public ("the **public proceedings ground**").
3. Finally, that s 42 was an invalid because it infringed the implied freedom of political communication ("the ***Lange* ground**").
4.

The High Court unanimously rejected each ground and confirmed the constitutional validity of s 42. The plurality justices comprised Gummow, Hayne, Heydon, Crennan, Kiefel and Bell JJ. Chief Justice French wrote separately, joining in the reasons of the plurality.

The *Kable* ground

The Court noted that the requirement for a suppression order to be in the public interest derived content from the main purpose of the Act, which was to enhance community protection by supervision of certain offenders who have served custodial sentences.

Having regard to that object and the public interest requirement, their Honours held s 42(3) was not "*so indefinite as to be insusceptible of strictly judicial application*" and nor did it "*impair impermissibly the character of the State courts as independent and impartial tribunals and thus to render them inappropriate repositories of federal jurisdiction*".
Accordingly, the *Kable* ground failed.

The public proceedings ground

In respect of the public proceedings ground, the Court began by recognizing the quoting of Isaacs J in *R v Macfarlane; Ex parte O'Flanagan and O'Kelly* (1923) 32 CLR 518 at 549 that the "*final and paramount consideration in all cases is … 'to do justice'. All other considerations are a means to that end*" and that "*publicity … can only be disregarded where necessity compels departure, for otherwise justice would be denied*" to the parties.

The Court then identified situations recognized as an exception to the general principle that proceedings should be open to the public such as cases concerning wardship, lunacy and trade secrets as well as the powers of courts and the rules of evidence which confer immunity against disclosure in court of certain communications.

However, the challenge to s 42 was not founded on any absence of an inherent power or inapplicability of a rule of evidence allowing for a closed hearing, but rather upon the competence of the Victorian legislature to confer statutory power upon Victorian courts.

The Court pointed to circumstances in which Federal courts are empowered to close proceedings to the public or forbid or restrict the publication of evidence and adopted the reasoning of Gibbs J in *Russell v Russell* (1976) 134 CLR 495 at 520, where his Honour had held that the category of cases forming an exception to the general rule that proceedings shall be conducted in public was not closed to the Commonwealth Parliament, and that a requirement for a court to sit in private in an appropriate case – as opposed to all cases – was not impermissible.

By parity of reasoning, if equivalent Acts made by the Commonwealth Parliament allowed for closed court hearings and were not constitutionally impermissible, s 42 could not be. Accordingly, the implication contended for failed.

The *Lange* ground

The *Lange* ground can be dealt with in short form. First, the Court accepted that s 42(3) burdened freedom of communication about government or political matters by its terms, operation or effect, but held such burdening to be an indirect or incidental effect of the provision. Secondly, it was held that s 42 was reasonably appropriate and adapted to serve a legitimate end in a manner which is compatible with the maintenance of the constitutionally prescribed system of representative and responsible government and, therefore, constitutionally permissible.

As a result, there was no infringement of the implied constitutional right to political free speech.
The matter is now back before the Magistrates' Court, where Mr. Hinch has pleaded not guilty to 5 counts of breaching a suppression order.

Insolvency Law

Case Notes by Lucy Kirwan

UPDATE – PERSONAL PROPERTY SECURITIES ACT

The *Personal Property Securities Act 2009* (Cth) is now expected to take substantive effect from October 2011.

The Act codifies the law of secured transactions as it relates to personal property. The legislation imposes a consistent, Australia-wide treatment of the securitisation of nearly all rights in personal property, both tangible and intangible. The Act will impact upon numerous areas, including insolvency and banking/finance and applies to such property as leaseholds, retention of title clauses and receivables.

The Act will establish a searchable registration system that covers all types of securities granted in relation to personal property. For the most part, the existing State and Commonwealth-based registers for particular kinds of securities will be abolished and registered interests migrated across to a new, consolidated register.

The Act introduces a number of new concepts unfamiliar to those working in the area of secured transactions. In many instances, the old notions of legal and equitable title will no longer be relevant. Instead, the new principles of registration, attachment and perfection will apply to determine a party's priority interest in a particular piece of property.

A substantial amount of research and debate has preceded and followed the legislation's enactment. The Australian Law Reform Commission and the Senate Legal and Constitutional Committee, among many others, have examined the matters the Act covers. A useful historical summary can be found on the Commonwealth Attorney-General's website. In addition, the website of the Personal Property Securities Register contains a considerable amount of useful information, including a series of discussion papers: see http://www.ppsr.gov.au.

The Act has been amended several times. It should be noted that the most recent consolidation does not incorporate the changes to be effected by the Personal Property Securities (Corporations and Other Amendments) Bill 2011. This Bill passed both houses of Parliament on 10 May 2011 and is awaiting royal assent. The Australian laws, already the subject of much criticism, are scheduled for review three years from commencement.

A number of other common law jurisdictions have enacted similar statutory regimes, such as Canada and New Zealand. But there are significant differences between the overseas models and the Australian one. These differences notwithstanding, the case law in these jurisdictions will no doubt be closely examined when the Australian courts come to consider the meaning of the Act. A few suggested NZ cases to read in the meantime are: *Graham v Portacom New Zealand Ltd* [2004] 2 NZLR 528; *NZ Bloodstock Limited v Waller* [2005] NZCA 254; *Dunphy v Sleepyhead Manufacturing Company Limited* [2007] NZCA 241.

Insolvency Law

Case Notes by Tiphanie Acreman

***TQM Design & Construct Pty Ltd v KCL Developments Pty Ltd* [2011] NSWCA 7 (3 February 2011)**

Corporations Act 2001 ss 459C, 459F, 459G, 459P – presumption of insolvency on failure to comply with statutory demand – whether an invalid application to set aside a statutory demand affects the time at which the presumption arises.

Effect of the Decision

Creditors should take care when arguing that an application by a debtor under s459G is invalid because if the court accepts that argument the time extension in s459F will not be triggered. The result may be that the creditor is unable to rely on the presumption of insolvency provided by s459C. Consequently, it may be necessary for the creditor to take steps to guard its position prior to determination of the debtor's s459G application.

Statutory Provisions

Section 459F provides that where an application to set aside a statutory demand is made “in accordance with s459G”, the time for compliance with the statutory demand is extended to seven days after the application is determined, or such other period specified by the Court. If no application is made under s459G, the time for compliance is 21 days.
Section 459C provides that a creditor applying to wind-up the company in insolvency under s459P has the benefit of a presumption that the company is insolvent if it failed (as defined in s459F) to comply with the statutory demand within three months of the application.

Background

On 20 May 2010 the appellant (TQM) served two separate creditor's statutory demands, one on the first respondent (KCL), and another on the second respondent (GP).

On 10 June 2010 the respondents filed a joint application under s459G for an order that both statutory demands be set aside. On 4 November 2010 Barrett J dismissed the application finding that it did not validly invoke jurisdiction under s459G (*Golden Plantation Pty Ltd v TQM Design & Construct Pty Ltd* [2010] NSWSC 1279). The basis for his Honour's decision was that each application to set aside must relate to a single statutory demand. Notwithstanding the debts were based on a common substratum of dealings, the demands related to distinct debts with distinct sources.

On 15 December 2010 the respondents were granted an injunction to restrain the appellant from relying on their failure to comply with the statutory demands in winding-up proceedings. The issue was whether the presumption of insolvency arose 21 days from the date of service of the statutory demand (11 June 2010), or 7 days from the date of determination of the s459G application (11 November 2010). This was critical to the question of whether the appellant was out of time for reliance on the presumption.

As Barrett J had previously held there was no valid application under s459G, his Honour granted the injunction on the basis that an application had not been made "in accordance with s459G" as required by s459F(2)(a), and therefore an extension of time to the date of determination of the s459G application did not apply. It is this decision which was the subject of the appeal.

Appeal

Spigelman CJ, with whom Macfarlan JA agreed, dismissed the appeal and upheld Barrett J's interpretation of s459F(2)(a). Their Honours also held that the appeal should be dismissed on the basis of issue estoppel (Hodgson JA agreeing) as the first decision of Barrett J finally determined between the parties that there was no application made in accordance with s459G, therefore the issue could not be reagitated in relation to s459F(2)(a).

On the interpretation point, Spigelman CJ confirmed that in order to trigger the extension provided in s459F, a valid application under s459G must be made. In doing so his Honour reiterated that time is not the only essential factor in determining whether a s459G application is valid. The mere fact that the debtor has applied to set aside the statutory demand within 21 days is not sufficient to found a valid s459G application and thus trigger the extension in s459F.

This raises a difficulty for the creditor. If it successfully argues that the application to set aside the statutory demand is invalid, but the application is not determined within the time period for reliance on the statutory demand, the result may be that the creditor is unable to rely on the presumption of insolvency.

On this point, the appellant relied on *Long Nominees Pty Ltd v Roandale Holdings Pty Ltd* [2009] NSWSC 932 where Barrett J held that instituting an application for winding up when a s459G application was pending was an abuse of process, resulting in an award of indemnity costs against the creditor.

Spigelman CJ distinguished the decision in *Long Nominees* on that basis that the facts were quite different and that in considering whether an abuse of process has occurred, the court would give significant weight to the interests of the creditor in avoiding the problem associated with delay in determining the s459G application, and the consequences for its reliance on the presumption of insolvency.

His Honour noted at [34] that the effect of the decision is to ensure that "in the case of any delay in the determination of an application to set aside a purported s459G application, the creditor must take steps within the relevant period to protect itself." Hodgson JA noted that the problem does not arise if the creditor merely contests the merits of the s459G application.

IP Forum

Tom Cordiner & Alan Nash

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.

Blackmagic Design Pty Ltd v Overliese & Ors [2011] FCAFC 24 (25 February 2011)

Confidential information – product concept developed with assistance of employer's confidential information – whether injunctive relief available - conflict of interest – whether duty to disclose exists

This was an appeal from a decision of Jessup J concerning confidential information belonging to Blackmagic, a company that specialises in the design, manufacture and sale of hardware and software for various video applications. The first and second respondents were former employees of Blackmagic, one of whom was found to have created and retained a spreadsheet using, among other things, information concerning Blackmagic's business; the third respondent was a company established by them with a view to selling audio products and later, it seems, also products competing with those of their former employer. The respondents never actually competed with Blackmagic.

The respondents were found to have conceived of, while still employed by Blackmagic, a product called "Simple Card" with the assistance of use of Blackmagic's confidential information, primarily information about costing and sales. Blackmagic's claims were, in effect, that the first and second respondents came upon a product, concept or idea in circumstances where they owed a duty to Blackmagic to disclose that product, concept or idea to their employer but failed to do so (or at least to disclose the conflict that had arisen between those respondents' interests and those of their employer).

At first instance, his Honour granted an injunction restraining the respondents' use or disclosure of specific parts of Blackmagic's confidential information, but refused to grant the further relief sought by Blackmagic. That additional relief included: an injunction that effectively prevented exploitation of the "Simple Card"; equitable compensation or common law damages for breach of duties by the former employees; and loss caused by the delay in development of Blackmagic's more sophisticated "DeckLink Studio Card" (it being argued that the respondents ought to have disclosed to their employer their work on the "Simple Card", which disclosure would have shortened the time to production of the DeckLink Studio Card). Blackmagic appealed against the trial judge's refusal to grant that additional relief. A number of other unsuccessful causes of action pursued by Blackmagic at trial were not the subject of appeal.

In relation to the wider injunction sought by Blackmagic restraining exploitation of the "Simple Card", Blackmagic argued that it ought to be regarded as the owner in equity of the concept. The Court (Besanko J, Finkelstein and Jacobson J agreeing) agreed with the trial judge, however, that the concept was merely a product concept of "some potential" and not something over which there could be a property right.

Alternatively, the concept could only be Blackmagic's property if there was an obligation on the part of the first or second respondent to disclose the concept to it, which raised the same considerations as

Blackmagic's appeal against the trial judge's refusal to grant equitable compensation or contractual damages for the asserted loss of opportunity arising from those respondents' failure to disclose their work on the "Simple Card". Justice Besanko accepted that the first respondent's conduct had reached the point where there was a "real sensible possibility of conflict" between his interests and the duties to his employer. Whether he also had a positive, prescribed duty to disclose that conflict was in doubt, and his Honour preferred authority to effect that disclosure in this context is a means of avoiding breach (that is, by obtaining an employer's informed consent) rather than a duty in its own right. That being the case, any equitable compensation would be limited to compensation for loss that would not have occurred but for the conflict arising, rather than as a result of the non-disclosure. Blackmagic also failed to demonstrate that compliance with the duty would have, as it had pleaded, required disclosure of the first respondent's spreadsheet. Nor was the contractual claim based on an express obligation to disclose conflicts of interest against the second respondent made out on the evidence.

A further issue arose as to whether Blackmagic should be permitted to raise on appeal a claim of breach of an implied contractual duty of good faith against the first respondent, but ultimately Blackmagic was prevented from doing so on the basis that the ground of appeal was introduced too late in the day and it was a cause of action not adequately raised at first instance.

SNF (Australia) Pty Ltd v Ciba Speciality Chemicals Water Treatments Limited **[2011] FCA 452 6 May 2011**

Patents – invalidity and infringement

Kenny J considered an application by SNF for revocation of various innovation patents owned by Ciba concerning processes for treatment of mining waste (tailings) with flocculants and damages for groundless threats of patent infringement. Ciba cross-claimed for infringement. Kenny J found the innovation patents valid and infringed.

Her Honour's determination of the case appeared to be resolved in the main part by construction of the claims and, in particular, the word "rigidification" which was not a term of art. Put simply, the invention was a process of adding a flocculant (of a particular kind and in a particular manner) to mining tailings (waste water and suspended particulate material such as clay) as those tailings were transferred to a tailings dam such that the flocculant would cause the tailings to rigidify in the tailings dam but not while being transferred.

Her Honour observed that an important answer too many of SNF's objections lay in the proposition that the use of a relative expression in a claim necessitating judgment by the skilled addressee is not objectionable providing the claim provides a workable standard suitable to the intended use. Here the terms of import were "rigidification" and cognate words. For example, claim 1 commenced "A process of improving rigidification of a material…".

SNF argued that the term "rigidification" and its variants did not differ from the processes of settling and sedimentation of tailings in a tailings dam as disclosed in the prior art because those processes would always lead to rigidification as claimed, also when a flocculant was used. Unsurprisingly, Ciba contended otherwise. Ciba's expert stated that the outcome of rigidification would be a process producing "a different tailings deposit, with different characteristics, different dewatering potential in a quite different period of time to natural settling and sedimentation processes". In particular, it was possible that a beach or stack of solids would be produced which, as it grew, would drive further water out of the stack. Her Honour accepted Ciba's expert's view over that of the expert for SNF, noting that the term "rigidification" was a qualitative term in which a networked structure is formed – not the same as occurs after settling and sedimentation of tailings.

Arguably her Honour's construction of the claim reads more into the word "rigidification" than the plain word and the patent as a whole permit. Nevertheless, her Honour appears to have accepted that the word provides a "workable standard suitable to the intended use". That construction effectively did away with many of SNF's arguments concerning validity of the patents.

For each of the prior art disclosures relied on by SNF for novelty, her Honour found at least one integer of claim 1 was not present. Some prior art was found not to anticipate because it was directed to a different purpose, namely, enhancing settling or sedimentation rather than rigidification. Accordingly, the way her Honour construed the word "rigidification" was crucial. Other prior art disclosures were found not to include an essential integer of claim 1 being that the flocculant should be added to the tailings in an aqueous solution during the transfer of the tailings to the tailings dam. Her Honour considered that the prior art, while disclosing the use of flocculants in aqueous solutions, nevertheless taught away from that use and instead recommended using flocculants in oil/water emulsion. Her Honour also found that a flocculant containing emulsion was not a flocculant in aqueous solution as required in claim 1.

Given the low bar sent for innovative step in *Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd* (2009) 177 FCR 239, not surprisingly, Kenny J rejected SNF's arguments on lack of innovative step for each of the patents. For each of the missing elements identified above in respect of novelty, her Honour found that the missing element contributed to the working of the invention in a material way. As to the "rigidification" elements of the claims, her honour's construction of that term was crucial to her finding that there was an innovative step.

As to the manner of manufacture argument, her Honour accepted Ciba's contention that, in the case of an innovation patent, the test should be "whether on the face of the specification of the innovation patent there is an admission that there is no innovative step" as opposed to an "inventive step" for a standard patent. Her Honour found no admission on the face of the specifications of the innovation patents in suit that, in relation to a specific prior art document mentioned in the specification, the invention does not differ in any way that does not make a substantial contribution to the working of the invention.

On the question of sufficiency, a major flaw in SNF's argument was that its arguments and evidence on insufficiency went beyond the case it pleaded. Ciba argued that SNF's expert's evidence as to the difficulties in implementing the process disclosed in the patent was at odds with the experience of the skilled workers in the field. Ciba argued that any experiment or procedure required to be carried out by the skilled addressee in order to put the invention into practice would be of a routine or standard kind and required no invention or ingenuity. Her Honour substantially accepted Ciba's submissions.

SNF's clarity argument concerned the term "rigidification" and its variants. Given her Honours construction of those terms, SNF's argument failed. Her Honour concluded that it was clear that "an effective rigidifying amount" is that amount of the flocculant that increases the concentration of the tailings to a point that, immediately after discharge from the pipe, results in material that stops and rigidifies because there is no longer sufficient force to keep it flowing.

The fair basis argument was that the body of the specification identified only one point at which the flocculant was added during transfer of the tailings to reduce shear but the claims extended to the addition of the flocculant to any point during that transfer. However, the body noted that the point at which the flocculant might be added could change depending on various variables. Thus the fair basis argument failed.

SNF's utility objection was in substance that the specifications of the patents lacked details as to the proper dosing point, the appropriate concentration of water soluble flocculant and the proper solids content range of the tailings. However, these matters went to insufficiency not lack of utility. Her Honour found that there was no evidence that some process within the claims did not work or that some process within the claim failed to fulfil the promises in the body of the specification.

SNF admitted direct infringement and infringement of the patents by reason of the use of SNF's flocculating agents in two mines. As to a third mine, SNF denied it had authorised or supplied a product with instructions which would infringe if followed or was a joint tortfeasor in respect of that mine's use of SNF's flocculating agents. As to the "authorisation" claim, Ciba argued that the evidence showed that SNF was closely involved in the infringements and had "sanctioned, approved, [and] countenanced" them. SNF responded that it had no power to control or prevent the infringing acts, and therefore no question of authorisation arose. Her Honour accepted Ciba's contention and therefore did not make an express ruling regarding indirect infringement.

No appeal has been filed as yet from this decision, though the time for doing so had not passed at the time of reporting.

RLA Polymers Pty Ltd v Nexus Adhesives Pty Ltd [2011] FCA 423 (29 April 2011)

Confidential information – whether capable of protection at law - whether used by ex-employees to develop new products – extent of springboard

In this case Justice Ryan found that Nexus and the other respondents, former employees of RLA Polymers, had used confidential information of RLA Polymers to develop a flooring adhesive in competition with RLA Polymers faster than they would have otherwise. His Honour dismissed RLA Polymer's similar claim in respect of another flooring adhesive developed and sold by Nexus in competition with RLA Polymers. Ryan J refused to grant permanent injunctions restraining Nexus from selling the first flooring adhesive but did order that damages be assessed on the basis of an account of profits made by Nexus for that adhesive for the period attributable to the reduced time it took in developing that adhesive by reason of using the confidential information.

The respondents unsuccessfully asserted that the formulae for RLA Polymers' flooring adhesives were not confidential nor capable of protection at law. The finding that it was confidential seemed to flow quite naturally from admissions made by the respondents' witnesses as to RLA Polymers' intention to keep such formulae confidential and expert evidence that it was not possible to easily reverse engineer those formulae. As it turned out, the respondents' case seemed to turn mostly on the mistaken belief that it was not wrongful to use RLA Polymers' confidential information if they did not intend to do so or did not know that it was wrongful to do so.

Ryan J observed that RLA Polymers had adequately particularised in its statement of claim the confidential information it asserted against Nexus. It was not necessary in this case for RLA Polymers to have set out every piece of confidential information which it sought to keep confidential – the respondents' were aware of the type of ingredients which made up the formulations of adhesive in question and so were not placed in an unacceptable position when trying to understand the case put against them.

Ryan J also considered that while the individual type of ingredients that constituted the formulae in question were known, the combination (in terms of type, quantity and number) of those ingredients was not known and that combination had the necessary quality of confidence to attract protection of the Court. There was sufficient movement from commonly known formulae to RLA Polymers' formulae for adhesives to warrant that protection and RLA Polymers had established suitable protocols for the protection of that confidence.

His Honour did not accept RLA Polymers' assertion that the respondents had intentionally destroyed evidence so as to mask that they had always intended to misuse RLA Polymers' confidential information. Such a finding would have assisted RLA Polymers' in its assertion of misuse of confidential information in respect of its second flooring adhesive formula, upon which it did not succeed. His Honour was satisfied that that information was not used to create Nexus' second flooring adhesive.

His Honour then calculated the benefit Nexus obtained by using RLA Polymers' confidential information. This process was by no means simple, requiring his Honour to make numerous findings as to the process of development of Nexus' product and how long that process would have taken but for the use of confidential information. In the end, his Honour determined that Nexus had obtained a 5.5 month advantage and ordered that an account of profits derived by Nexus be taken from the time its product was released for commercial distribution free from the problems solved by using that confidential information. Interestingly, his Honour concluded that the account of profits should be paid to RLA Polymers as "damages".

His Honour concluded that it would not be appropriate to order an injunction restraining Nexus from using the confidential information because Nexus' product was not replica of RLA Polymers' product but a different product and damages would be an adequate remedy for the wrong.

No appeal has been filed as yet from this decision, though the time for doing so had not passed at the time of reporting.

Symbion Pharmacy Services Pty Ltd v Idameneo (No 789) Limited
[2011] FCA 389 (20 April 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

The applicant, Symbion, alleged that the respondent, Idameneo, had infringed its registered trade mark (depicted below, hereafter called the Symbion logo) which is registered in respect of various medical services. Symbion also alleged that Idameneo had breached a term of a contract not to use the mark or a mark "similar to or capable of being confused with" that mark. That contract was part of a series of transactions by which Symbion was sold by Idameneo to a third party.

Symbion's case of trade mark infringement was dismissed.

The Symbion logo is registered as follows in grey which in actual use (as relevant to the contract case) is in shades of green:

Idameneo used the following logo in respect of radiology services in colour with shades of green and blue (the Idameneo logo):

Jessup J first observed that Idameneo used the Idameneo logo as a trade mark in respect of radiology services and that those services are of a kind that are within the class of services in respect of which the Symbion logo is registered. Symbion asserted that the Idameneo logo was deceptively similar to the Symbion logo.

Jessup J accepted that, in determining deceptive similarity in accordance with section 10 of the *Trade Marks Act* 1995 (Cth), the following principle stated by Lord Diplock in *General Electric Co Limited (USA) v General Electric Co Limited* [1972] 1 WLR 729, 737-738 (*GE*) applied:

"My Lords, where goods are of a kind which are not normally sold to the general public for consumption or domestic use but are sold in a specialised market consisting of persons engaged in a particular trade, evidence of persons accustomed to dealing in that market as to the likelihood of deception or confusion is essential. A judge, though he must use his common sense in assessing the credibility and probative value of that evidence, is not entitled to supplement any deficiency in evidence of this kind by giving effect to his own subjective view as to whether or not he himself would be likely to be deceived or confused."

Idameneo asserted that its radiology services were services of a kind not normally sold to the public for consumption or domestic use but to medical, and at times dental, practitioners, whose decision it was to refer patients for diagnostic imaging and, in such cases, to select the appropriate service provider. Symbion did not appear to contend otherwise. Idameneo contended that Symbion was therefore required to, as Lord Diplock put it, adduce "*evidence of persons accustomed to dealing in that market as to the likelihood of deception or confusion...*". Symbion did not do so.

Instead, Symbion countered that *GE* did not apply because there was nothing about the specialised nature of the environment in which a doctor or dentist chose to refer a patient for radiology "that meant that their likely perception of the mark was, in some sense ... idiosyncratic or unusual, in the sense that it would differ from [that of] normal consumers of those services ....". It was said that doctors were "confronted with trade marks as part of their daily life", and that, if a doctor encountered a mark in the practice of his or her profession, there would be nothing "to suggest the nature of the industry, or the market, would make any difference at all" to the way in which he or she responded.

Jessup J did not accept Symbion's attempt to distinguish GE. His Honour considered that if Symbion's contentions required Lord Diplock's statement "read as though it applied not to services sold in a specialised market, but only to services, and to markets, in the context of which the court took the view that the questions arising under s 10 could not be resolved without the assistance of 'a tutored eye', being an eye that would necessarily perceive the mark in an 'idiosyncratic or unusual' way." His Honour observed that "for the court to embark upon a consideration of the matter at this level would go at least part of the way towards providing an answer to the question which, according to Lord Diplock, was a matter for specialised evidence."

Accordingly, where it is established that goods or services are not sold to the public but to persons of a particular trade, in a case of asserted deceptive similarity, the trade mark owner must adduce evidence from such persons as to the potential for deception or confusion. As Jessup J observed, "To a lay eye (such as that of a Judge), two marks may appear very similar. To a specialised eye, however, the marks may be stylised representations of different pieces of laboratory or diagnostic equipment (for example) as between which there could be no possibility of confusion."

Turning then to the contract part of the case, the major issue appeared to be whether the contract terminology "similar to or capable of being confused with" should, as Idameneo contended, be read to have the same meaning as "deceptively similar" according to the *Trade Marks Act* and, in particular, section 10 which states "For the purposes of this Act, a trade mark is taken to be deceptively similar to another trade mark if it so nearly resembles that other trade mark that it is likely to deceive or cause confusion."

His Honour did not accept Symbion's contention that the contractual phrase was to be read disjunctively, instead holding that the term "similar to" was constrained by the antecedent words in the phrase such that it was only similarity which was capable of causing confusion that was prohibited, not similarity alone. However, his Honour also did not accept Idameneo's contention that the phrase should be equated with "deceptive similarity" in the Act. His Honour observed that section 10 of the Act speaks of "likelihood" of confusion whereas the contract speaks of "capability" of confusion. The parties were taken to have been aware of the wording of section 10 and to have chosen different words on purpose.

His Honour stated that the contractual question is not whether the resemblance is such as would be likely to cause confusion - it will be sufficient if it is such as would be capable of causing confusion. His Honour held that the contractual question was a lower bar than is put in place by section 10 of the Act. His Honour did not elucidate why or why he did not require evidence of the kind described by Lord Diplock above on the contract claim. Accordingly, his Honour went on find, in light of the circumstances of Idameneo's actual use of its logo, that the logo was capable of being confused with either the registered Symbion logo or the green version of that logo as used by Symbion.
We are informed that, on 13 May 2011, the Court handed down orders permanently restraining the respondent from using the mark but from 6 months time in order for the respondent to have time to rebrand its services. The respondent also informed the court that an appeal had or would be filed and his Honour therefore stayed his orders until final determination of any appeal. We note that, strictly speaking, leave to appeal will be required as his Honour's judgment was interlocutory not final.

Facton Ltd & Ors v Seo [2011] FCA 344 (12 April 2011)

Copyright – damages for lost sales and reputation

In this case, Gordon J dismissed an appeal and cross appeal from Federal Magistrate Burchardt. Of particular interest is her Honour's conclusion on damages to reputation for copyright infringement in G-Star branded apparel of the applicants.

Burchardt FM had awarded the applicants $15,000 for damages to reputation. The number of proven sales of counterfeit G-Star branded apparel was relatively minor – "not less than 20". Mr Seo sought to rely on *Elwood Clothing Pty Ltd (ACN 079 393 696) v Cotton On Clothing Pty Ltd (ACN 052 130 462)* [2009] 81 IPR 378 where her Honour had previously awarded $10,000 for loss of reputation in copyright works where the number of infringing works was relatively high. Her Honour observed that the present case concerned counterfeiting whereas the *Elwood* case did not. In the *Elwood* case the respondents did not bear the Elwood name or trade marks but had instead taken a substantial part of a well known copyright work. It seems that her Honour was of the view that counterfeit cases caused greater damage to reputation than non-counterfeit cases. Her Honour does not explain why that would be the case.

Mr Seo also submitted that in the absence of evidence about loss of reputation, there was no basis on which the Federal Magistrate could award damages for loss of reputation. Her Honour disagreed and to that extent seems to have departed from the decision of Bromberg J reported below. Her Honour was prepared to draw an inference that it would be apparent to purchasers that, because of the price, the counterfeit items were not genuine and that knowledge would devalue the reputation of the G-Star products. Her Honour noted that, because of the relatively minor number of counterfeit items, it was not surprising that the applicants had not adduced evidence of loss to reputation. However, since her Honour was satisfied that damage had occurred, her Honour felt bound to do her best to quantify loss even if some degree of speculation and guesswork was involved and those damages would not be nominal.

Her Honour noted Bromberg J's concern that the applicants in *Facton v Rifai* had failed to adduce evidence to demonstrate the value of their reputation. Her Honour observed that ", that kind of analysis (even if possible) is of limited assistance in a case such as the present. Here, damage was found. That finding was not the subject of any ground of appeal. Calculating that damage given the extent and nature of the conduct would be and remains very difficult. The award of damages reflects those facts. Of course, if the extent and nature of the conduct was of a different magnitude, then the exercise to which the trial judge referred in *Rifai* may be necessary if the applicants were to seek a substantial award of reputational damages."

Suyen Corporation v Americana International Limited
[2011] FCA 300 31 March 2011

Trade Marks – non-contested appeal from Delegate's decision

On 29 October 2009, the Delegate of the Registrar of Trade Marks upheld in part Americana's opposition to Suyen's application for registration of the trade marks BENCH, "bench" "bench/" in relation to clothing among other things, unless the registration was restricted to "shoes and boots" in class 25 only.

The parties proposed consent orders allowing the appeal, setting aside the Delegate's decision and requiring the application for the trade mark to proceed to registration. The Registrar of Trade Marks consented to the proposed orders. Dodds-Streeton J observed that there was authority for making such orders where, were it not for the opposition of the respondent, the application would have been registered at the first instance. Her Honour observed that there was no evidence that the mark should not be registered and in the circumstances was satisfied that the appeal should be allowed.

Facton Ltd v Rifai Fashions Pty Ltd [2011] FCA 290 (30 March 2011)

Copyright – damages for lost sales and reputation

This and the other two cases involving Facton reported in this edition concern claims for damages and additional damages brought by the applicants for breach of copyright by the respondents. The applicants sell in Australia clothing branded "G-Star" and each respondent sold counterfeit G-Star clothing.

Copyright subsisted in G-Star logos borne by the apparel sold by the applicants. There is a slight difference of opinion which arises between this case, heard by Bromberg J and the case of *Facton v Seo* heard by Gordon J (reported above) as to the matters the applicants must prove prior to obtaining damages for loss of reputation.

The respondents in this case conceded that the applicants should have damages quantified for lost sales resulting from the sale of counterfeit G-Star branded apparel at $9,213. The respondents resisted the applicants' claim for damage to reputation and additional damages. His Honour determined that $11,000 in additional damages (for flagrancy of conduct) should be awarded but that no award for damage to reputation should be awarded. The finding as to additional damages is relatively uncontroversial. The finding as to reputational damage is worth consideration.

The applicants filed evidence as to the extent of marketing and sales of G-Star branded apparel both overseas and in Australia. Indeed, the respondents admitted that the applicants had established a "substantial, exclusive and valuable reputation and goodwill in Australia by reference to the" copyright works which had been infringed.

Turning then to the calculation of loss, his Honour referred to Gordon J's summary of the principles in *Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd* [2009] FCA 633 at [5] and [6] that: (1) damages are compensatory in nature; (2) damages should put the applicant in the same position it would have been if it had not suffered the wrong; and (3) in relation to damages for infringement of copyright, damages should reflect the depreciation to the value of the applicant's copyright as a chose in action resulting from the respondent's infringing conduct. It may be noted that (3) does not provide particularly helpful guidance.

A difficulty his Honour had with the applicants' claim arises from the fact that it was only one of the applicants (G-Star International) which owned the copyright. His Honour accepted that G-Star International suffered damage by reason of the respondent's conduct because Facton will have: (1) lost sales because counterfeit products were available at cheaper prices; and (2) lost customers because some of them will no longer consider G-Star branded apparel as exclusive. Indeed, his Honour accepted that, as a chose in action, those logos did hold significant value. However, the applicants had failed to identify the basis upon which the other applicant (Facton) had suffered damages by way of lost reputation. The applicants sought $100,000 in lost reputation, but his Honour found that because the applicants had failed to establish (or even attempt to establish) by way of evidence or submission: (1) the value of the reputation concerned; or (2) the value of the reputation held by each of the applicants, he had no capacity to measure the loss.

His Honour concluded: "In circumstances where the applicants could have adduced, but have failed to adduce, evidence to demonstrate the value of each of their goodwill or reputation, I am not prepared to wholly speculate as to that value. I have no basis from which to assess any diminution in that value resulting from the infringing conduct of Rifai Fashions and Mr Rifai. In those circumstances, I am not able to award damages for loss of reputation."

Barrett Property Group Pty Ltd v Dennis Family Homes Pty Ltd
[2011] FCA 246 (18 March 2011)

Copyright – house plans – the "alfresco quadrant"

This is yet another case brought by Barrett against a project home builder, in this case Dennis Family Homes, for infringement of copyright in plans and houses containing an "alfresco quadrant".

Dodds-Streeton J found in favour of Barrett and, not surprisingly, followed *Barrett Property Group Pty Ltd v Carlisle Homes Pty Ltd* [2008] FCA 375,
Barrett Property Group Pty Ltd v Metricon Homes Pty Ltd (2007) 74 IPR 52 and *Metricon Homes Pty Ltd v Barrett Property Group Pty Ltd* (2008) 75 IPR 455 which have been reported upon in earlier editions of IP Forum.

While Barrett accepted that independent elements of the alfresco quadrant were not novel, it asserted that the alfresco quadrant comprised an original arrangement of spaces different from any pre-existing design which resulted from the application of considerable skill and labour and was not dictated by functional requirements or constraints. Dennis contended that the alfresco quadrant was a non-distinctive arrangement of known features.

Her Honour gave a helpful summary of the applicable principles concerning the taking of a substantial part and whether a sufficient objective resemblance between the works exists, highlighting the difficulties in cases where the works are to some extent utilitarian and the scope for creativity is somewhat limited. Her Honour observed: “The application of sufficient labour, skill and judgment in combining commonplace features may, even in the context of project home plans, attract copyright protection. Conversely, where the originality lies in the combination or arrangement of individuality commonplace components, using such a component of a work, which secured copyright protection only as a total collocation, would not infringe.”

Her Honour found the applicant’s expert very helpful and criticised the respondent’s expert for, among other things, failing to exhibit all the materials and instructions he was given by the respondent’s solicitors and for basing his opinions not on independent research but on information and plans provided to him by the respondent’s solicitors.

Her Honour concluded that the Barrett alfresco quadrant made a great visual impact and that none of the pre-existing plans in evidence displayed precisely the same spaces and features, combined in the same way, integrated under the same roofline as in the Barrett alfresco quadrant – noting that novelty or uniqueness was not a prerequisite of copyright protection.

On the question of sufficient objective similarity between the Barrett and Denis works, her honour concluded there were striking fundamental similarities between the alfresco quadrant areas in the Barrett and Dennis plans and houses, despite some differences of dimension, proportion, feature and detail.

Her Honour did not accept that the Dennis plans and houses had been arrived at independently. One of the greatest difficulties for the respondent’s witnesses in this regard was the passing of time between the giving of evidence and the original work they had performed on the Dennis plans and homes. The witnesses could not adequately explain how the plans were arrived at. Her Honour concluded that the witnesses were “unreliable and defensive witnesses whose evidence was lacking in candour” and she “formed and maintained an unfavourable view of the credit of the above witnesses at the time of trial”. Direct or indirect copying was found notwithstanding a denial of such and a failure by the applicant to establish by direct evidence that the draftspersons had visited the Barrett homes or collect Barrett plans.

The proceeding has since been dismissed, presumably as part of a settlement between the parties

LED Technologies Pty Ltd v Roadvision Pty Ltd **[2011] FCA 146 (25 February 2011)**

Designs – whether uncertain – new and distinctive – infringed

LED Technologies sued Roadvision for infringement of its registered designs concerning rear combination lamps for vehicles - LED tail-lights. A significant portion of Justice Finkelstein’s reasons for decision dealt with a claim that the respondents had induced a manufacturer to breach its contract not to use moulds to manufacture lamps for sale in Australia and New Zealand other than by LED Technology. His Honour dismissed that claim on the basis that it was equally open to the respondents to assume that new moulds had been used.

LED Technologies had previously successfully sued Elecspess for infringement of its registered designs and resisted cross claims for revocation: *LED Technologies Pty Ltd v Elecspess Pty Ltd* (2008) 80 IPR 85, affirmed *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 449. The respondents in this case ran a broadly similar attack on the design which was unsuccessful. The applicant’s allegations of infringement of the design also failed.

The respondents argued that the Statement of Newness and Distinctiveness was uncertain. The statement read “Separate clip in lenses. Base to take a variety of 2, 3 or 4 combination of lenses for stop, tail, indicator, reverse LED lenses, no visible screws" and the respondents asserted, by way of expert evidence, that it was not clear from the drawings what the clip mechanism was and that the lenses could be connected to the base in any number of ways. His Honour dealt with the argument as follows: "the statement indicates clearly to the relevantly informed addressee (and probably to anyone familiar with the English language) that the base could be manufactured to take a number of lenses. Reference to "separate clip in lenses", when read with the phrase "no visible screws", indicates that the lenses clips in and are not held in place by screws. There is nothing relevantly uncertain contained in the statement."

The respondents also argued that the design was not new and distinctive as compared to the prior art. His Honour dealt with this ground of revocation in tandem with the allegation of infringement because both required the Court to consider whether the competing designs were substantially similar in overall impression to each other subject to the matters the Court must consider pursuant to section 19 of the *Designs Act* 2005. That is, that the Court should: give more weight to similarities between the designs than to differences between them; have regard to the state of development of the prior art base; have particular regard to the features identified in the statement of newness and distinctiveness; have regard to the freedom of the creator of the design to innovate; and have regard to the amount, quality and importance of those parts of the design that are substantially similar to another design. The standard to be applied is that of the informed user who is not an expert but is one familiar with the product to which the design relates.

His Honour found that the respondents' lamps were similar to the registered designs in ways in which the designs were similar to the prior art. The features which distinguished the registered designs from the prior art were not all taken in the respondents' lamps. Accordingly, the registered designs were new and distinctive but not infringed by the respondents' lamps.

There is both an appeal and cross appeal filed from Finkelstein J's decision.

Albany Molecular Research Inc v Alphapharm Pty Ltd **[2011] FCA 120 (18 February 2011)**

Patents – novelty where prior art disclosed compound but not how to make it – false suggestion

Jessup J here considered an action by Albany Molecular Research (AMR) for infringement by Alphapharm and Sigma of its patent for the compound fexofenadine hydrochloride, the active ingredient of the pharmaceutical product known as Xergic. Alphapharm and Sigma cross-claimed for revocation of the patent.

His Honour's findings concerning novelty are of most interest (and are the subject of appeal by AMR). The primary claim of the patent in issue was a product claim for substantially pure fexofenadine. It was accepted that the prior art had disclosed the claimed compound but not how to make it. Indeed, when the method disclosed in the prior art was followed, substantially pure fexofenadine was not produced. AMR had found and disclosed a method of making substantially pure fexofenadine in its patent.

Alphapharm and Sigma contended that the prior art disclosure was enough to anticipate the product claim. AMR contended that the prior art did not do so because it did not enable the skilled addressee to make the claimed compound, it only described it. AMR contended that his Honour should follow the rule set down by Dixon J in *Acme Bedstead Co Ltd v Newlands Brothers Ltd* (1937) 58 CLR 689 at 707 that "a prior paper publication, giving information that does not become part of common knowledge, does not invalidate a subsequent patent unless it supplies enough information to enable a person of proper skill in the art to produce the mechanical device or appliance or carry out the process claimed in the later specification."

However, Jessup J felt bound by the Full Court's decisions in *H Lundbeck A/S v Alphapharm Pty Ltd* (2009) 177 FCR 151 and *Apotex Pty Ltd v Sanofi-Aventis* (2009) 82 IPR 416 to find in favour of Alphapharm and Sigma. His Honour did so because he felt that the Full Court had adequately reviewed the case law sought to be relied on by AMR. Bennett J (Middleton J agreeing) in *Lundbeck* had set down the rule that:

> *"It follows that, where the prior publication is of the subsequently claimed invention, that is*

sufficient. Where the prior disclosure falls short of a complete disclosure, the question of the sufficiency of that disclosure arises. It is there that consideration must be given to the quality of a disclosure to the skilled addressee armed with common general knowledge. It is in that context that, in a limited fashion, questions of "enablement" can be said to arise."

His Honour observed that if he were wrong as to the test for novelty, then the prior art did not supply enough information to enable the skilled addressee to produce the claimed compound and so the claim would not lack novelty.

Jessup J also found that the claims in question should be revoked on the ground of false suggestion. His Honour found that the patent applicant had represented to the patent office that when the prior art was followed, it was not possible to produce 98% purity or more of the compound. This representation was made in response to the patent office examiner citing that prior art as anticipatory of the various claims of the patent. His Honour found that if all the steps set out in the prior art were followed it would be possible to obtain 100% purity and so there had been a false suggestion. His Honour also found that the representation had been material to the grant of those claims since the examiner did not appear to dispute the point or its relevance to the question of anticipation of those claims.

His Honour dismissed the revocation case insofar as it relied on allegations that the claims of the patent lacked an inventive step, were insufficient, failed to define the invention, lacked clarity and lacked fair basis. On the question of fair basis, the respondents asserted that AMR should not be able to make a claim for a pharmaceutical product when the only advance over the prior art was devising a method to prepare that product. It will be interesting to see if that argument or an argument like it is pursued on cross-appeal.

The case for infringement was apparently not in issue on the product claims, but given they were all found invalid for lack of novelty, the infringement proceeding was dismissed. His Honour found that, while AMR had successfully resisted revocation of its method claim, it had not filed any evidence in support of infringement of that claim by the respondents.

His Honour's reasons and orders concerning to whether to revoke the patent entirely or specific claims are set out in *Albany Molecular Research Inc v Arrow Pharmaceuticals Pty Ltd* [2011] FCA 252 (note the change of name of the respondent). Put simply, the respondents sought revocation of the patent entirely on the basis of false suggestion but his Honour only revoked the product claims as they were the claims affected by the purported false suggestion.

Facton Ltd & Ors v Yuan **[2011] FMCA 266 (21 April 2011)**

Copyright – damages for lost sales and reputation – additional damages

The applicants (Facton) sell in Australia clothing branded "G-Star". The respondent (Yuan) had offered for sale at least 393 counterfeit G Star branded products. It was assumed that those products were sold by Yuan. On a successful application for default judgment, Facton sought among other things damages for copyright infringement under three main heads.

First, Facton sought the average lost profit it would have made on 393 lost sales, about $36,600. Federal Magistrate Burchardt found that the Facton had not established that it would have made every sale that Yuan did. Indeed, the price difference between the genuine products and counterfeit products meant that was very unlikely. However, his Honour did accept that some consumers who could have afforded genuine product would have instead purchased the counterfeit product and accordingly ordered $5,000 for lost sales.

Secondly, Facton sought damages to loss of reputation. His Honour accepted that Facton spent very considerable amounts of money and devoted considerable resources to establishing and maintaining the product reputation that it had in Australia. Because the infringement was "on what appears to have been a relatively large scale" his Honour awarded $20,000 under that head of damage. This head of damage is particularly nebulous and his Honour's ruling shows a trend recently to accept evidence as to loss or reputation in products by reason of sale of products infringing copyright in those products.

Finally, Facton sought additional damages which his Honour awarded in the sum of $30,000, relying on the apparently deliberate nature of the infringement; its wide ranging scope; the benefit likely to have been obtained by Yuan selling good quality fakes at a substantially reduced price; the total failure of the respondent to cooperate in any way with the applicants, despite being served with appropriate correspondence

Corporations and Securities

Case notes by Roslyn Kaye

Corporations and Securities Update

Xie v Crisp [2011] VSC 154 (20 April 2011)

Appointment of directors by resolution – de facto directorship – appointment of administrator by directors

In these proceedings, Justice Ferguson considered issues including the execution of a unit holder's agreement, the appointment of directors to the subject company, de facto directorship, the insolvency or likely insolvency of the company, and the appointment of an administrator. For present purposes, as this update is for the Corporations and Securities section of CommBar, only the issues as to the validity of purported appointment of directors and de facto directorship will be considered in detail in this summary.

In late 2008, three individuals, Xie, Anderson and Xin, went into business together and they set up a unit trust with a corporate trustee, XYZ Packaging Pty Ltd ("XYZ") through which they conducted the business. Xie was appointed formally as the sole director and her directorship was registered with ASIC. As Xin and Anderson originally wanted to conceal their involvement in the business, they were not formally appointed as directors. In 2010, Xin and Anderson were registered with ASIC as directors, and thereafter they resolved that XYZ was insolvent and they resolved to appoint an administrator to the company. Xie commenced these proceedings seeking declarations that the appointment of Xin and Anderson as directors was invalid, and that they were not entitled to resolve that the company was insolvent and to appoint the administrator.

Relevantly for present purposes, the first issue was whether the unit holders agreement which had been executed by Xie allowed the formal appointment of Anderson and Xin as directors of XYZ, and whether such agreement constituted a resolution by Xie to appoint them as directors. There was a clause in the unit holders agreement which provided that a unit holder who holds more than 20% of the issued unit capital shall be entitled to appoint one director to the board, and "board" was defined to consist of Xie, Anderson and Xin. It was submitted on behalf of Xin and Anderson that the "board" appointed under that agreement was the board of directors of XYZ. However, Justice Ferguson held that the constitution of the company governed the appointment of directors, and as such, it was relevant to examine the constitution. The constitution of XYZ required a "resolution" by Xie to appoint other directors. Her Honour held that the execution of the unit holder's agreement containing the provisions set out above was not a "resolution" for the purposes of the constitution. A resolution requires a "demonstrable expression of will, on the part of the directors, in approving of the resolution" (citing from Ipp J in *Poliwka v Heven Holdings Pty Ltd* (1992) 8 ACSR 747). Accordingly, Justice Ferguson held that Anderson and Xin were not validly appointed as formal company directors.

The second issue relevant to this update is whether Anderson and Xin were de facto directors of XYZ, and if so, whether such status would entitle them to resolve that the company was insolvent and to appoint an administrator. Her Honour held that in considering whether a person is a de facto director "it is necessary to look at what tasks they perform and what decisions they make rather than to consider, in a contextual vacuum, whether they themselves or others subjectively thought they were directors." (at [170]). In the present case, her Honour held that Anderson and Xin were de facto directors within the meaning of section 9 of the *Corporations Act 2001*, as they were just as involved as Xie in the day to day operations of the company, for example, travelling to China to source products, participating in management decisions and participating in meetings which they referred to as "board" meetings. However, her Honour held that their status as de facto directors did not entitle them to appoint an administrator to XYZ under section 436 of the *Corporations Act 2001*. Her Honour held that the "opinion of directors" to which reference is made in section 436 is limited to directors who have been appointed formally, because that section refers to a resolution being made by the "company". Further, Anderson and Xin had open to them an alternative option, that of applying to wind up the company.

Nonetheless, Justice Ferguson held that XYZ should continue in administration. Her Honour was able to reach that conclusion by invoking the Court's power under section 447A of the *Corporations Act 2001* to make such order as it thinks appropriate about the operation of Part 5.3A.

Agripay Pty Ltd v Byrne [2011] QCA 85 (3 May 2011)

Guarantee – equitable relief for undue influence – Yerkey v Jones *and* Garcia v National Australia Bank *considered*

This appeal was brought from a trial decision of the Supreme Court of Queensland that a guarantee given by a wife in respect of a loan taken by her husband was not enforceable against her, as it would be unconscionable to allow the lender to enforce it. The Court of Appeal upheld the trial judge's decision and dismissed the appeal.

The Respondent's husband had borrowed money from the Appellant in order to invest in an agricultural managed investment scheme. The evidence at trial was that the Respondent signed a guarantee in respect of that loan without reading the guarantee document first. Her evidence was that although she understood in general the nature of a guarantee, she was not made aware of her actual potential liability in that particular transaction. Further, she was not clear on the period of the loan, and she was unaware of the precise nature and details of the investment for which her husband required the loan funds. The Respondent's husband died sometime later, and defaulted in the loan repayments. The lender attempted to enforce the guarantee against the Respondent, and she claimed that there was a presumption of undue influence in respect of her execution of the guarantee and therefore the guarantee was not enforceable against her.

In considering the issue of undue influence in this particular situation, the Court of Appeal had to consider three issues. First, had the trial judge erred in finding that the Respondent did not understand the purport and effect of the guarantee when she executed it? Second, had the trial judge erred in finding that the Respondent was a volunteer when she entered into the guarantee? Third, did the trial judge err in finding that the taking of the guarantee was unconscionable, in circumstances where the Respondent knew that there was a life insurance policy which was intended to cover her husband's debts in the event of his death, and she had indeed received monies under that policy since his death?

As to the first issue, the Court of Appeal held that the trial judge did not err in concluding that the Respondent did not understand the purport and effect of the guarantee when she executed it. The Court upheld that finding notwithstanding that the Respondent was a well-educated and intelligent woman who understood in general terms what a guarantee entailed, namely that she could be called upon to pay her husband's debt in the event of his default, and who also appreciated that the transactions entered into by her husband were complex and that she did not fully understand all of the details of such transactions. Justice McMeekin held that a guarantor in a family situation must have "a significant degree of comprehension" of the features of the transaction between a primary debtor and lender in order for the lender to avoid the application of the equitable principle of undue influence. His Honour also held that even indifference or a complete lack of understanding as to the terms of the guarantee and loan (as opposed to misapprehension about the terms) can suffice to show that the guarantor did not understand the purport and effect of the guarantee. However, his Honour did observe (in obiter) that equity may more readily protect a spouse who is mistaken as opposed to one who is indifferent as to the terms of a guarantee.

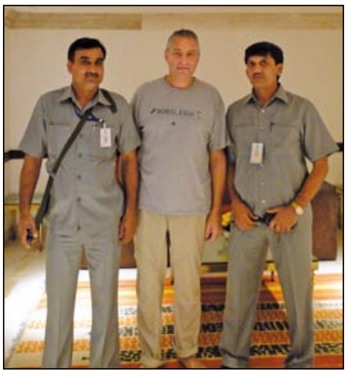
As to the second issue, the Court of Appeal held that the trial judge was correct in finding that the Respondent was a volunteer. The Appellant had argued that the Respondent was not a volunteer as she obtained a financial benefit from the transactions which she was guaranteeing. The Court of Appeal held that any benefit obtained by the Respondent was an indirect benefit only, and to find that a spouse is not a volunteer for the purposes of the undue influence principle there must be a direct link between the benefit and the guarantor.

Finally, as to the third issue, the Court of Appeal agreed with the trial judge's conclusion that the existence of the life insurance policy did not preclude it from being unconscionable for the Appellant to require the Respondent to meet her obligations under the guarantee. The judges on appeal took different approaches to this issue. President Margaret McMurdo held that the existence of the life insurance policy was not relevant to the principles concerning the equity to grant relief due to undue influence. Justice McMeekin held that while the life insurance policy was relevant to the question of unconscionability, such unconscionability on the part of the Appellant was made out in this case, as the Appellant had failed to explain properly or to ensure that the Respondent understood her husband's transaction where it knew that the transaction was not substantially for the benefit of the guarantor but rather for the benefit of her husband.

Sports Law Section

Article by Henry Jolson QC

Commonwealth Games 2010 New Delhi with Henry Jolson QC



I was woken by a noise outside my hotel room in New Delhi and discovered that there were 2 security men outside armed with machine guns.

I was in New Delhi in the first two weeks of October last year as a member of the Court of Arbitration for Sport Tribunal set up to hear and determine any disputes that might arise out of or in connection with the Commonwealth Games. I was one of six appointed. The others were from the United Kingdom, Canada, Singapore, South Africa and India. I had been appointed a long time before but was concerned not only about the security aspects of the Games but more importantly the health risks associated with Dengue fever following recent heavy rains in New Delhi.

My wife, Carolyn, decided not to go but I was determined to go despite the threat of terrorist aggression and health warnings.

Armed with copious amounts of mosquito repellent and long sleeved shirts, I arrived in New Delhi on 2 October 2010 and remained there until 14 October 2010.

I do not regret my decision to go as the Games proceeded without any security interruption or health issues and I successfully avoided the dreaded 'Delhi belly'.

I was surprised and impressed with the quality of the facilities especially the conditions in the athletes' village that was the focus of much media criticism which I believe was totally unfair. I visited both the Australian and United Kingdom Delegations to the Games and was shown the conditions of the athletes' accommodation, recreation and training facilities. None of the officials or athletes complained and most of them commented that the conditions were the best they had experienced over previous Games. I suppose that if one were to go to a construction site 3 or 4 weeks before delivery it would not be too difficult to find a toilet or two that has been used or misused by contractors. That appeared to be the case in the village. There were some unmade paths but certainly not the cause for any concern.

There was an over-presence of military and police security. The two armed guards that I mentioned before were stationed outside my door the for the entirety of my stay but, as I later found out, it wasn't to protect me, but rather to protect Prince William who was staying down the corridor for most of the time. Certainly, the military presence and the no-go zones gave the impression that there were no spectators at the Games. That appeared to be the case in the first week when quite a number of logistical problems arose, not the least of which was a breakdown in the computer system. This meant that local people who had ordered their tickets were not able to collect them because they couldn't be issued until the computer glitches were fixed towards the end of the first week. In addition, a lot of foreign spectators stayed away because of the adverse publicity and most of the foreigners who were there were members or close friends of athletes competing. Nevertheless, as the tickets became available and as India increased its tally of gold medals, the local population, aided by freebies offered by the organising committee to bolster the impression of spectators, the local population came out in their numbers. For example, the tennis finals in which India competed against Australia was in a packed stadium. Interestingly enough there was an anti-Australian sentiment very clearly expressed by the local spectators to the extent that there was a lot of hissing and booing as the Australian competitor served and if she served a double fault, the whole stadium cheered. It was very uncomfortable being in the extreme minority in that environment.

The Rugby 7s and Hockey finals were very well attended and it was a great carnival atmosphere.

As a member of the CAS Tribunal I was given what was called 'Affinity' accreditation that meant I could go virtually anywhere and I was provided with my own car, driver and liaison officer at my disposal 24/7. The problem was that there were no cars available until late in the first week due to a dispute between the car supplier and Organising Committee over payment. Likewise, and farcically, there was a noticeable absence of volunteers throughout the first week of the Games because once they had been given their meal vouchers and uniforms they disappeared ostensibly over working conditions.

The CAS Tribunal had very little work to do. We had an appeal in the first day of the Games that related to the eligibility of an athlete to represent his country. He was refused accreditation because he was not a citizen of his country, in this case, a Territory of the State of Australia. The problem was that that Territory did not recognise the status of citizen but only recognised the status of resident. It was a picnic for the lawyers and we had to decide whether the accreditation was correctly refused. In the end we decided that the athlete would not have qualified either as a citizen or as a permanent resident of the Territory that he wanted to represent and therefore could not compete in the Games. After that there were 3 potential doping disputes but they were resolved at an earlier level in the disciplinary procedure and we were not called upon to intervene.

So, it was then a matter of enjoying the Games and enjoying the hospitality of the Organising Committee and of the City of New Delhi that we graciously accepted.

Henry Jolson QC