CommBar News

THE COMMERCIAL BAR ASSOCIATION

Leading Strategically ™

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For details of the Executive Committee, go to this link.

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www.bdps.com.au

President's Report

I can report that CommBar activities and initiatives are being progressed as planned.

CommBar Members will by now, I expect, have received a letter from the Treasurer, Ian Percy summarising the Upgrade to CommBar's Website. CommBar is refreshing its Website and upgrading its capacity to make it more functional so that it will provide significant additional benefits to CommBar Members. In particular the CommBar Webpage update will make it easier to search for a particular Member or for Members practising in a particular area. A search template similar to that used on the Bar's Website will be incorporated and a search for a CommBar Member will be possible directly from the homepage.

When the site was originally launched care was taken to ensure Member photographs were of uniform quality. Equally, Members were encouraged to submit a profile highlighting their commercial practice areas - as opposed to other areas of practice which might feature on the Bar's website or a Clerk's website.

Unfortunately, not all Members have chosen to post a photograph or a profile.

CommBar's Website is a significant marketing tool and statistics show that it receives a significant number of "hits" each day. Those who do not have a profile and photograph are missing out on a good opportunity to put themselves forward.

One of the enhancements to the Website will be a scroll through of all Member photographs so that each time the site is accessed a different member photographs will appear. Photo rotations will be slower than at present so that the Member's profile can be accessed directly from the photo when it appears. To make this work, we need all Members to provide a photograph and a short profile.

An opportunity will be provided soon for Members to have their photographs taken by a professional photographer. Members who already have photographs may wish to have a new one taken. To plan for this, please e-mail the Treasurer (Ian Percy) ipercy@vicbar.com.au if you would like a photograph taken.

Those Members who have not submitted a profile are encouraged to do so. An update of the areas of practice would be particularly useful if a Barrister wishes to be found. The profile should focus on areas of commercial practice. It can refer to cases in which the Member has been involved, membership of

relevant professional associations and articles or publications. The profile should be no more than half an A4 page (about 250-300 words). Profiles should be e-mailed to: courtney.bow@vicbar.com.au.
If no profile is submitted the profile appearing on the Bar's Website (if any) will be used. Members may choose to update their Vic Bar profiles now and advise us that they also want it to be used by CommBar. Your profile should focus on your commercial practice. A profile that is not Commbar suitable in this way will not be adopted.

The proposed changes will make the site more attractive and user-friendly. It is expected that the changes will be progressively rolled out by CommBar before the end of the year. Members are asked to co-operate by providing photographs and profiles so that the website has a uniform look and feel and provides relevant and accurate information – for all our members.

I also report that Paul Hayes and his CommBar Constitutional Subcommittee (Paul Hayes (Chair), Martin Scott S.C., Stewart Maiden and Sam Hay) have provided a report to the CommBar Executive as to how CommBar might improve the present structure of its Constitution and might further formalise the election of CommBar Office bearers. The Executive of CommBar has received that report and is considering its recommendations.

I remind Members of the earlier CommBar communication highlighting the forthcoming ICCA Conference in Singapore between 10–13 June 2012, which may be of interest to CommBar Members. This conference is a most significant conference for those interested in the field of International Arbitration and for those looking at what opportunities exist in the Asian Region and beyond.

Finally, I report that at a recent meeting the CommBar Executive resolved to maintain CommBar Subscriptions at their current level.

I encourage all to re-subscribe their Membership to CommBar.

G. John Digby QC
President
CommBar
May 2012

Corporations and Securities

Case Note by Roslyn Kaye

ASIC v Hellicar & Ors [2012] HCA 17; Shafron v ASIC [2012] HCA 18

Directors' duties - "Duty of fairness" to call witnesses

In this appeal from the New South Wales Court of Appeal, the High Court overturned the Court of Appeal's decision and upheld the trial judge's decision that seven non-executive directors of James Hardie Industries Limited ("JHIL"), as well as the company's general counsel and secretary, Peter Shafron, had contravened civil penalty provisions of the *Corporations Act 2001* by breaching their duties as directors under section 180(1) of that Act.

The factual basis of ASIC's case against JHIL's officers arose from a restructure of the James Hardie group that took place in 2001. At that time, two companies within the group that were subject to claims for personal injury arising from asbestos exposure were separated from the rest of the group, and a foundation was established to manage and pay out those asbestos claims.

ASIC's case against the seven non-executive directors was based on a JHIL board meeting held in February 2001, at which, ASIC claimed, those officers approved an announcement to the ASX stating that the foundation "had sufficient funds to meet all legitimate compensation claims anticipated" and was "fully funded". It was subsequently discovered that the foundation did not in fact have sufficient funds to meet all legitimate compensation claims which were reasonably anticipated in February 2001.

The case against Mr Shafron was brought on three bases. First, it was alleged that he failed to give advice to the chief executive officer that certain information about the deed of covenant and indemnity to be given by the separating companies should be disclosed to the ASX. Second, it was alleged that he had failed to advise the board that the draft ASX announcement was expressed in too emphatic terms. Third, ASIC alleged that Mr Shafron had failed to advise the board that advice given by external actuarial advisers about the cash flow funding available to meet the asbestos claims was limited and important assumptions made by those advisers had not been verified.

At first instance, Justice Giles found that the seven non-executive directors and Mr Shafron had breached their duties of care under the *Corporations Act 2001.* That decision in respect of the seven non-executive directors was reversed on appeal by the New South Wales Court of Appeal.

In ASIC's appeal to the High Court in relation to the seven non-executive directors, there were two main questions for determination by the Court. The first question was whether the New South Wales Court of Appeal had been wrong in concluding that ASIC did not prove that the draft ASX announcement in question had been tabled and approved at the February 2001 board meeting. The second question was whether the Court of Appeal was wrong to hold that ASIC breached a 'duty of fairness' by not calling to give evidence at trial a Mr Robb who may have been present at the relevant board meeting.

As to the first question, the High Court held that ASIC had not failed to prove that the draft ASX announcement in question had been tabled and approved at the board meeting. The seven non-executive directors argued that the draft ASX announcement was changed after the board meeting, and they would not have approved such changes. They also pointed to other alleged errors in the minutes of the February 2001 board meeting to argue that it inaccurately recorded that the ASX announcement had been considered and approved at the meeting. The Court examined closely each of the alleged inaccuracies in the board meeting minutes, and ultimately held that none of the inaccuracies bore directly on the question at hand, namely whether the draft announcement was tabled and approved at that meeting. Further, the High Court observed that the fact that some parts of the meeting minutes were inaccurate does not necessarily imply that other parts, such as the part recording the board's approval of the draft ASX announcement, were inaccurate. In addition, the High Court pointed out that the meeting minutes ought not to have been treated by the Court of Appeal as simply one circumstance from which the court could draw an inference that the draft ASX announcement was tabled and approved by the board. Rather, according to the High Court, the minutes were more than merely the basis for the drawing of an inference; they were a "formal and near contemporaneous record" of the proceedings at the board meeting. As such, the Court held that in the absence of evidence to the contrary, ASIC proved its case by tendering the minutes.

The second question in the non-executive directors' appeal related to ASIC's failure to call Mr Robb to give evidence at trial. The New South Wales Court of Appeal held that ASIC should have called Mr Robb. The High Court disagreed with that conclusion. In the course of its analysis, the High Court observed that proceedings for declarations of contravention engage no more stringent requirement than that in criminal proceedings, and that each side is free to decide what evidence it will call. In addition, the High Court held that the failure to call a witness could not be a basis for an argument that the cogency of evidence called at trial should be discounted. Finally, as a matter of fact in this case, the Court held that the fact that ASIC had not called Mr Robb to give evidence had not given rise to any unfairness to any of the defendants at trial. Justice Heydon (who wrote a separate judgment to that of the plurality) emphasised that there was no specific duty on ASIC to "act fairly".

Mr Shafron's appeal in relation to the findings of contravention made against him was brought on three bases. First, Mr Shafron argued that although his role as company secretary made him an "officer" of the company, the obligations of care and diligence which attached to that role were limited and separate to any obligations attaching to his duties as general counsel. He further argued that his role as general counsel did not make him an "officer" of the company in respect of the duties attaching to that role. The Court rejected that argument, and held that it was not possible to divide Mr Shafron's duties as general counsel from his duties as company secretary. The Court went on to say that even if that distinction could be made, Mr Shafron's responsibilities within the company extended to matters within the scope of the *Corporations Act 2001* regardless of how they came to be imposed on him. Further, the High Court held that he participated in the making of decisions (for the purposes of the section 9 definition of "officer") even if he did not have a role in the ultimate making of those decisions. The Court made the general observation that in ascertaining whether someone is an "officer" within the meaning of section 9, the inquiry is "directed to what role the person in question plays in a corporation. It is not an inquiry that is confined to the role that the person played in relation to the particular issue in respect of which it is alleged that there was a breach of duty."

The second and third bases of Mr Shafron's appeal related to the alleged breaches of duty of care on his part. He argued that the Court of Appeal was wrong to find that he had breached section 180(1) of the *Corporations Act 2001* by failing to advise the board that it needed to consider whether to disclose to the ASX a deed of covenant and indemnity that it had entered into with the two entities being separated from the group. Mr Shafron also argued that the Court of Appeal was wrong to find that he had breached his duty by failing to tell the board that materials prepared by external actuaries did not allow for superimposed inflation. The High Court rejected both of those bases of appeal.

The High Court remitted questions of relief from liability and penalty in respect of the defendants back to the Court of Appeal for determination.

Intellectual Property and Trade Practices

Case Notes by Tom Cordiner and Alan Nash

 

In this edition we review a case in a rarely-visited areas of intellectual property, the plant breeder's rights statutes. There are trade mark cases with lengthy, complicated histories and a finding that a logo made up of descriptive elements will still be inherently adapted to distinguish. There is an interesting application of the discretion not to remove a trade mark for non-use. In the copyright arena we are given an explanation as to the onus of proving copying in copyright cases – sometimes striking similarities will not be enough to draw an inference of copying – and a case regarding who owns copyright in a cinematographic film.

SOUTH AUSTRALIA, VICTORIA and WESTERN AUSTRALIA

Tom Cordiner & Alan Nash

Barristers

Correspondents for South Australia, Victoria and Western Australia

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

LED Technologies Pty Ltd v Roadvision Pty Ltd & Anor
[2012] FCAFC 3
(10 February 2012)

Designs – infringement – whether departures from registered design significant – impact of prior art

Contract – inducing breach of contract – standard of knowledge required

LED Technologies makes automotive lamps. The product in question was a square lamp in respect of which LED Technologies holds two registered designs. In 2003, a Taiwanese manufacturer, Valens, agreed to manufacture those products. Relevantly, it was a term of that agreement that Valens would not manufacture or sell in Australia or New Zealand lamps made from the moulds used to create LED Technologies' product. The first delivery occurred in December 2003 and LED Technologies began selling them soon after. The relationship came to an end in early 2006, when LED Technologies began sourcing its lights from a new supplier.

The respondents are distributors of automotive products, including lights, and are competitors of LED Technologies. The senior management of each company is the same. Valens is a supplier to each company, and has been since 2002 in the case of the second respondent (**Baxters**) and 2007 in the case of Roadvision.

In 2006, a director of Baxters (Mr Baxter) began discussions with Valens about the manufacture of a square lamp series, and eventually Valens did so. LED Technologies alleged that those products infringed its registered designs, and also that the respondents had induced or procured a breach of a contract between LED Technologies and Valens. Both claims were dismissed at first instance. The respondents' cross-claim for revocation (based on different prior art to that pressed in other cases involving the same designs) also failed and was not the subject of appeal.

The trial judge concluded that the respondents' lights were not substantially similar in overall impression to LED Technologies' registered designs. In particular, the trial judge emphasised differences between the backs of the respondents' products and those depicted in the designs. On appeal, LED Technologies argued that the trial judge erred in placed such weight to the backs of the products, because the backs were not visible when the products were in place and generally the backs were not visible in the respondents' marketing and packaging. Further, sections 19(1) and (2)(c) of the *Designs Act 2003* (Cth) directs the Court to give more weight to similarities than differences and, where only a part of a design is substantially similar, to consider the importance of that part to the design as a whole.

The Full Court (Besanko J, Mansfield and Flick JJ agreeing) accepted that there was some force in those arguments, but ultimately rejected that ground of the appeal. The difference at the back of the lights was a significantly different, visual feature. But more importantly, the registered designs appeared in a "crowded field of prior art", and many of the points of similarity also were common to that prior art.

On the inducing breach of contract claim, the trial judge had found that Valens had breached its agreement with LED Technologies regarding use of the relevant moulds. His Honour also held that the respondents were aware of that restriction or "recklessly indifferent to discovering what the true position was". What has not proven was that the respondents had known that Valens had, in fact, breached or would breach the restriction, so the cause of action was not made out.

Intention is a key element in the tort of inducing breach of contract, and a party's knowledge is an important component to consider when assessing intention. LED Technologies asserted that the trial judge had failed to consider particular evidence going to the knowledge of certain of the management of particular matters. In the absence of actual knowledge of breach being demonstrated, the Full Court observed that knowledge founded on "reckless indifference" is something akin to wilful blindness, and will be negated by an honest, albeit highly credulous, belief. Although the respondents' management might not have made reasonable inquiries about whether Valens were using the prohibited moulds, their knowledge did not rise to the requisite standard for liability to be made out.

Elders Rural Services Australia Limited v Registrar of Plant Breeder's Rights
[2012] FCAFC 14
(29 February 2012)

Plant Breeder's Rights – application accepted under old legislation but granted under new legislation – effect of transitional provisions

The *Plant Variety Rights Act 1987* (Cth) (the **old Act**) was repealed by the *Plant Breeder's Rights Act 1994* (Cth) (the **new Act**). A key difference between them is that plant variety rights (**PVR**) under the old Act subsisted for 20 from the date on which an application was accepted (although an applicant could not sue for infringement until the PVR were granted). Under the new Act, a plant breeder's right (**PBR**) subsists for 20 years from the date of grant.

Elders is the exclusive Australian licensee of the second appellant (**Caithness**) in respect of a particular potato variety. Caithness made an application for PVR under the old Act, which was accepted in mid 1992. Three years later in 1995, when the new Act had come into force, the application was granted.

The question at first instance was when the 20 year protection period commenced; the appellants had contended that as the rights were granted under the new Act, the period should run from 1995, the date of grant not 1992, the date of acceptance. The trial judge held, however, that Caithness' application was for PVR and its rights were granted under the old Act. As such the 20 year protection period began in mid 1992.

On appeal, the Full Court (Jacobson, Siopis and Nicholas JJ) began by observing that it is not possible to acquire rights under a statute once it has been repealed, since from that point it ceases to be law. Caithness either had acquired PBR or no rights at all. It was very unlikely, however, that it was the legislature's intention that rights attaching old Act applications were to be extinguished or left to lapse.

Section 83(1) of the new Act provides that applications made under the old Act and any objections thereto that remained unresolved when the new Act came into effect were to be dealt with in accordance with the provisions of the old Act. The respondents argued that the old Act provisions relating to grant and duration of PVR were among those preserved for that purpose.

The Full Court held that the purpose of that section was to ensure that applicants under the old Act were not disadvantaged by, for example, facing grounds for objection only introduced by the new Act. When read in context, however, the implication of s 83(1) was that a grant of a right in a plant variety occurring after the repeal of the old Act is necessarily a grant of PBR, not PVR. That conclusion was consistent with extrinsic materials such as the second reading speech for the new Act. Accordingly, the period of protection was found to run from the date of grant in accordance with the new Act.

Fry Consulting Pty Ltd v Sports Warehouse Inc (No 2)
[2012] FCA 81
(13 February 2012)

Trade marks – whether inherently adapted to distinguish – whether well-known mark – whether application in bad faith

Sports Warehouse is a US company that for some years has sold tennis goods online, primarily to the US market but also to Australian consumers. It applied for the TENNIS WAREHOUSE mark, with a priority date of 23 February 2005. Fry Consulting is a more recent Australian company that also sells tennis goods online, and in retail stores. On 22 December 2006, it applied for a mark comprising TENNIS WAREHOUSE AUSTRALIA and a stylised tennis ball (**Fry's mark**). Each company opposed the application for the other's mark.

Sports Warehouse's objection succeeded before the Registrar on the grounds of section 44(2) (deceptive similarity to a mark with an earlier priority date) and section 58A (opponent's prior continuous use of a similar trade mark) of the *Trade Marks Act 1995* (Cth). Fry Consulting appealed; its notice of appeal was filed on 22 December 2009.

At that time, Sports Warehouse's application for TENNIS WAREHOUSE was pending. Fry Consulting's objection to that application had succeeded, but Sports Warehouse had appealed the decision. In 2010, Sports Warehouse's appeal was dismissed (with a number of findings in that decision having some bearing on the present case).

This had the effect of removing the ability of Sports Warehouse to rely on sections 44 and 58A as grounds to oppose Fry's mark. Accordingly, in the present appeal Sports Warehouse sought instead to rely on sectuib 41 (mark not capable of distinguishing goods or services of the applicant), section 60 (mark deceptively or confusingly similar to a mark with an acquired reputation in Australia) and section 62A (application in bad faith). It was not successful on any of those grounds.

On the section 41(3) ground, Sports Warehouse submitted that properly motivated traders would wish to use Fry's mark, or marks that would closely resemble it. Sports Warehouse also led evidence showing that depictions of tennis balls, and use of the word "WAREHOUSE", were common elements used by traders of tennis related goods and general retail goods respectively. In contrast, Fry Consulting sought to emphasise the overall effect of the combination of elements in its mark, and led evidence as to the design of the stylised tennis ball in particular. Ultimately Dodds-Streeton J agreed, holding that the impression caused by that mark in its totality was distinctive, despite it containing some very descriptive elements. Her Honour also found that, if she had found Fry's mark to be inherently adapted to distinguish the designated services to some extent, then it would not have established sufficient use to obtain registration under section 41(5).

The section 60 ground failed, in effect, because Sports Warehouse failed to establish that by December 2006 it had acquired a reputation in the TENNIS WAREHOUSE mark through use of its corresponding domain names among consumers or any significant section of the public.

Sports Warehouse's section 62A ground primarily was founded on concessions by the principal of Fry Consulting (**Mr Fry**) that he had chosen the name "Tennis Warehouse" after seeing Sports Warehouse's online store and used some images from that site when constructing the Fry Consulting website, and an email exchange in 2004 between the parties. Her Honour summarised that exchange as one in which Mr Fry challenged Sports Warehouse's claims but undertook to desist if proof of entitlement was provided; Sports Warehouse responded with a promise to provide relevant documents, and then a "lengthy silence and activity". In assessing the question of bad faith, her Honour accepted that this raises both subjective and objective elements such that, for example, one would consider whether persons adopting proper standards but having the knowledge of the trade mark applicant would consider the decision to register as being one made in bad faith. Her Honour also described as an "apt touchstone" the UK approach of bad faith "as falling short of the standards of acceptable commercial behaviour observed by reasonable and experienced persons in a particular area". Applying both approaches, her Honour held that Sports Warehouse had failed to discharge its burden of proof under section 62A.

UCP Gen Pharma AG v Mesoblast, Inc
[2012] FCAFC 14
(29 February 2012)

Trade marks – non-use – what constitutes an "obstacle" to use – general discretion to allow marks to remain on the Register

Mesoblast successfully applied to have UCP's REVASC trade mark removed from the Register on the grounds of non-use in the period between February 2005 and February 2008. UCP appealed that decision.

It was common ground that the REVASC mark had not been used in that period. UCP argued, however, that the lack of use was due to circumstances that were "an obstacle to its use" (relying on sections 100(1) and 100(3) of the *Trade Marks Act*). Alternatively, UCP argued that the Court ought to as a matter of discretion allow the mark to remain on the Register.

Those arguments were founded on the somewhat tortuous route through which UCP came to be in control of the REVASC mark and the ability to produce and sell in Australia the product to be marketed under that name, a drug called desirudin. Desirudin was developed in the 1980's by a Swiss company, Plantorgan. In 1981, Plantorgan licensed its rights in desirudin to Ciba-Geigy. In 1987, Plantorgan transferred all of its intellectual property in certain manufacturing activity of desuridin to UCP. It appears that that transfer was subject to the existing licence to Ciba-Geigy.

The original application for REVASC was made in 1992 by Ciba-Geigy, and was granted in 1995. Rights in respect of the mark and other intellectual property associated with desuridin thereafter were transferred to a variety of pharmaceutical companies through a series of mergers and acquisitions, exclusive licensing arrangements and compulsory divestments. It was not until 2003 that the original Ciba-Geigy licence (by then a licence between UCP and Novartis) was terminated. By that stage REVASC/desuridin as a product had been manufactured by Novartis and launched and marketed through by Rhone-Poulenc as Nortavis' sub-licensee in some countries, but not Australia (although marketing authorisation for REVASC appears to have been obtained for Australia).

In late 2003, UCP granted to Canyon Pharmaceuticals Inc ("Canyon") the exclusive licence to manufacture, use and sell desirudin/REVASC, including associated intellectual property. Canyon then sought to engage Novartis to allow the manufacture of desuridin to re-commence. Novartis terminated that arrangement in 2005, however, because of alleged payment defaults on the part of Canyon. Canyon entered into a similar agreement with another company, Boehringer, in late 2006. By that stage, the REVASC registration had been assigned by Novartis to UCP.

Due to complexities in establishing the necessary supply chains and manufacturing lines, and the need to obtain new regulatory approvals, REVASC was not available for sale until late 2009, when it was launched in Germany and, the following year, the US. Canyon engaged an Australian company to assume responsibility for marketing REVASC in Australia and New Zealand, but that company went into liquidation. It was not until the end of 2010 that a new company, Emerge, came to hold the Australian marketing authorisation. It took until June 2011 for Emerge obtain certain necessary TGA certificates, at which time REVASC was included on Emerge's product list. By the date of the trial in October 2011, however, none had been sold.

Justice Jessup rejected UCP's arguments based on section 100(3) for a number of reasons. For the purposes of that section, authority suggests that the relevant circumstances "must arise from or comprise events external to the registered owner in the sense of not having being brought about by the voluntary act of the owner". There must be a causal link between the relevant circumstances and the non-use. Further, it must cause the non-use in the three year period in question.

Accordingly, none of the circumstances relied upon by UCP served to bring it within section 100(3). Although events that occur before the relevant period of non-use can be considered, the forced divestiture of the REVASC marketing rights of Rhone-Paulenc (by then Aventis) in 2000 that led to Novartis losing interest in the product was too distant in time to be a relevant obstacle in the present case. In the case of Novartis' withdrawal from the arrangements with Canyon, who in effect was the entity through which UCP would enter the Australian market, his Honour was unable to conclude (in the absence of better evidence from UCP) that that withdrawal was not due to Canyon's own default.

UCP's problems in obtaining manufacturing lines and marketing authorisations for REVASC, these were merely steps inevitably required to produce a new pharmaceutical product; UCP's position was "the inevitable result of its decision, many years previously, to secure trade mark registration in Australia well in advance of it having the wherewithal to manufacture the product to which the mark would be applied". Accordingly, his Honour was not persuaded that the non-use arose through any relevant "obstacles" within the contemplation of section 100(3).

Under section 101(3), however, the Court (and the Registrar) has a general discretion to allow a mark to remain on the Register where it is reasonable to do so. His Honour noted recent Full Court authority (*Austin, Nichols & Co Inc v Lodestar Anstalt* [2012] FCAFC 8) considering that discretion. In particular, that provision involves consideration of both the public interest and private interests. The owner's intentions, and any good faith use of the mark after the end of the non-use period also can be considered.

On the evidence, it was clear that UCP, through Canyon, had demonstrated a determination to bring the REVASC product to market and had met "challenges" (as opposed to "obstacles"). Canyon's activities in Australia were taken in good faith, and involved the commitment of resources. Emerge's marketing activities had flagged the advent of the product among the rather limited market to which it applied. There was no evidence of other traders wishing to use the mark. Nor were there any other private interests that would be prejudiced, in contrast to the detriment that would be visited upon UCP, Canyon and Emerge if the mark was removed. Accordingly, his Honour was satisfied that it was reasonable to allow the mark to remain on the Register.

Tricarico v Dunn Bay Holdings Pty Ltd
[2012] FCA 271
(23 March 2012)

Trade marks – only modified version of registered mark used – impact on identity of the mark

Dunn Bay successfully applied for the MALTMARKET BAR & KITCHEN mark in sentence case (i.e. "MaltMarket Bar & Kitchen"). Mr Tricario unsuccessfully opposed the registration and appealed that decision. Dunn Bay consented to the appeal being granted, but the Registrar did not.

Mr Tricario is the present owner of certain MALT LOUNGE marks. His company also owns the mark MALT SUPPER CLUB, filed a few days after the mark in suit. He operates and promotes businesses under those names in Western Australia. Due to liquor licensing disputes, those businesses did not commence until late 2010, but had been planned to open in late 2008 and their names had been promoted for some time before they opened. Dunn Bay's business operates in Margaret River, south of Perth.

The delegate's rejection of Mr Tricario's application effectively was based on the conclusion that the term "MALTMARKET" reduced the likelihood that the mark in suit would be confused or connected with Mr Tricario's "MALT" marks and was sufficient to dispel any deceptive similarity to them.

On appeal, Mr Tricario led additional evidence as to how Dunn Bay actually was using the mark in suit. As McKerracher J summarised the thrust of that evidence, there had been no occasion on which Dunn Bay has used the mark in suit in the manner in which it had been registered or, even closely approximately it. Mr Tricario argued that the evidence demonstrated that Dunn Bay did not intend to use the mark, and relied upon section 59 of the *Trade Marks Act*.

In effect, Dunn Bay used only a logo version of the works in the mark in suit, and further had obscured the "Market" element of "MaltMarket" by separating out that element, reducing its size and inserting it horizontally into the "l" in "Malt". Mr Tricario argued that such adaptations fell outside those contemplated by section 7(1) of the Act (where a party may be found to have used a trade mark if it is established that it has used the mark with additions or alterations that do not affect its identity).

Justice McKerracher agreed. The "MaltMarket" element was the only non-descriptive element in the mark, and an integral component. Obscuring the "Market" element to the point of non-detection substantially affected the identity of the mark. Any use of "maltmarket" was limited to contexts where such use was legally required or technically necessary (as in emails). Accordingly, the MaltMarket application was incorrectly filed because it did not reflect actual or intended use and it should not be registered as a result.

Note that the Court did not in this case have the benefit of a contradictor speaking on behalf of Dunn Bay (or, for that matter, the Registrar). The outcome may have been very different if Dunn Bay had been minded to defend its mark.

Hill v Lang
[2012] FCA 349
(5 April 2012)

Copyright – cinematograph film/sound recording – ownership – recording of a live performance

In 1987, Mr Lang formed a band called "Hoy-Hoy!". In 2005, Mr Lang decided to celebrate the 18th birthday of the band by staging a performance featuring the current band and performers with whom Mr Lang had worked over the year. The event would be recorded and a DVD produced.

Mr Hill attended the planning meeting for the DVD project. He was a music enthusiast and also experienced in film-making. At the meeting, Mr Lang's budget for the project and the payments to be made to the camera operators were discussed. At first instance in the Federal Magistrates Court, Mr Hill was found at that meeting to have agreed to a total payment of $500 to act as principal camera operator and editor of the subsequent footage.

Although the performance went well, in creating the DVD disputes arose between Mr Hill and the audio engineer who recorded the sound at the performance. Ultimately Mr Lang engaged a third person, Mr McNichol, to edit the visual and audio components into the final version of the DVD. Mr Hill's moral rights were acknowledged in the DVD.

Mr Hill claimed to be owner of the relevant cinematograph film, on the basis that he made all the necessary arrangements for the making of the film (see section 22(4) of the *Copyright Act 1968* (Cth)). That submission failed at first instance, because Mr Hill was found to have been paid for his work (and indeed admitted as such to Mr McNichol). Accordingly, section 98(3) of the Act applied such that Mr Lang was the copyright owner. Mr Hill's application was dismissed. On the appeal, Besanko J declined to disturb the findings of the court below.

Ron Englehart Pty Ltd v Enterprise Constructions (Aust) Pty Ltd
[2012] FCAFC 4
(17 February 2012)

Copyright – house plans – did opportunity and similarity require inference of copying?

In the trial below, Jessup J dismissed Ron Englehart Pty Ltd's claim that the respondents had infringed its copyright in a home called the Monomeeth 101. Jacobson, Nicholas and Yates JJ dismissed Ron Englehart's appeal from that decision.

A necessary element of a copyright infringement claim is that there must have been copying, directly or indirectly, of the copyright work alleged to have been infringed, but that such copying need not be consciously engaged in.

Ron Englehart contended that the second respondent (Mr Dervish) knowingly and intentionally sought to lead the unwitting draftsperson (Mr Factor) to create a drawing of a home called the “Sterling” for the first respondent (Enterprise Constructions) which reproduced the whole or a substantial part of the Monomeeth 101.

Ron Englehart’s position was that, in light of the striking similarities between the plans, the Court ought to have inferred that copying had occurred. Indeed, the Jessup J found that the differences between the plans were trivial and there was a strong impression of marked similarity between the plans.

The only place Mr Dervish could have obtained a brochure for the Monomeeth 101 was at a Ron Englehart display home. Mr Dervish denied ever visiting the home or knowing of the Monomeeth range of homes. His Honour found that Mr Dervish was not a reliable witness, that he had reconstructed some of his evidence including what he claimed to have given Mr Factor as inspiration for the Sterling and that he was quite prepared to give Mr Factor illustrations of what he wanted Mr Factor to produce.

However, his Honour held that it was highly improbable that, if Mr Dervish had wanted Mr Factor to copy the Monomeeth 101, he would not have given Mr Factor a brochure for that home. His Honour found that there was nothing in the records of oral instructions from Mr Dervish to Mr Factor that suggested Mr Dervish had imparted anything like the level of detail required to make out Ron Englehart’s case. Finally, his Honour found that the change to the draft plans of Mr Factor that lead to the striking similarity was done in a fashion that belied copying. Jessup J in effect found that the striking similarities were coincidental.

The Full Court observed that inferences are often drawn from established facts to show that the new work has been copied from the original copyright work, but that in all such cases it is necessary for the copyright owner to establish a basis for drawing such an inference. They cited Dixon CJ: “The facts proved must form a reasonable basis for a definite conclusion affirmatively drawn of the truth of which the tribunal of fact may reasonably be satisfied.”: *Jones v Dunkel* [1959] HCA 8; (1959) 101 CLR 298 at 305.

The Full Court also observed that earlier cases had spoken of a shifting of the evidentiary onus or evidentiary burden to the alleged infringer where similarities between the works are striking. The Full Court held that no “matter how strong the evidence of objective similarity, the legal burden of proving the necessary causal connection is always on the copyright owner”. Their honours considered that the shifting onus was not so much a rule of law as a process of reasoning which recognises that proven or admitted facts, if left unexplained by other evidence, may justify the drawing of a particular inference. They went on to observe that whether an inference of copying will be drawn will depend on the extent of the similarity and the nature of the copyright work and surrounding circumstances. Given these are matters of impression and degree, unless it could be shown that Jessup J's decision was affected by some error of principle, the trial judge's conclusion as to whether an inference of copying should be drawn was to be given particular weight. In short, their honours were not so convinced.

Bitek Pty Ltd v IConnect Pty Ltd
[2012] FCA 133
(24 February 2012)

Designs – default judgment – application for disclosure of information from respondent

Kenny J found that the respondents in this case had taken no steps in the proceeding notwithstanding having proper notice of it and that each element of the claim of design infringement was properly and discretely pleaded. Accordingly, her honour gave default judgment including declaratory relief, injunctive relief and orders for the taking of accounts to allow the applicant to elect between damages or an account of profits.

The applicant also sought what her Honour described as "extensive orders for disclosure" from the respondent for the purpose of obtaining sufficient information for the applicant to make its election as to pecuniary relief and "to obtain information as to the identities of the suppliers of the impugned products so that further proceedings could be initiated against those suppliers." The applicant contended that *Norwich Pharmacal Co v Commissioners of Customs & Excise* [1973] UKHL 6; [1974] AC 133 justified the grant of such orders. While Kenny J did not appear to be concerned that an order could be made as to the disclosure of identity pursuant to the reasoning in *Norwich Pharmacal,* her Honour considered that the orders sought by the applicant were akin to interrogatories and went well beyond the orders that had been made in that case.

Tivo Inc v Vivo International Corporation Pty Ltd
[2012] FCA 252
(19 March 2012)

Trade Marks – deceptive similarity – honest concurrent use – removal for non-use

Since 10 November 1999, the applicant owned the registration TIVO in respect of hardware and software concerning television and various services concerning television and promotion. From 18 February 2008, the first respondent (**Vivo**) owned the registered trade mark VIVO (in stylised form) in respect of apparatus for use in audio visual communication and the service of transmission of data by such apparatus. The second respondent, Mr Grassia, was a controlling owner of Vivo.

Although the application to register the TIVO trade mark was lodged on 10 November 1999, the applicant did not officially launch its business or supply or market any products in Australia until late July 2008, by which date, Vivo had already been marketing products in Australia for about 18 months, under the unregistered Vivo trade mark, and, from 24 April 2009, under the registered VIVO trade mark.

Dodds-Streeton J determined a plethora of claims made under the *Trade Marks Act* 1995 (Cth) (the Act). We set out below each issue addressed by her Honour.

First, the applicant contended that the VIVO mark should be removed from the Register (pursuant to section 88(2)(a) of the Trade Marks Act (the Act)) because it was deceptively similar to TIVO (section 41(1) and (2)) as at the lodgement date of the VIVO mark. Vivo denied such allegations and, in the alternative, asserted it had engaged in honest concurrent use of its mark (section 44(3)(a) of the Act).

Her Honour observed that the parties agreed that, until the conflicting lines of authority on the standard of proof for applications under section 44 (and section 60) of the Act were resolved by a Full Court, they should be determined on the conventional balance of probabilities test.

The applicant submitted that the VIVO trade mark's incorporation of the essential and distinguishing "-IVO" component of the TIVO mark, which was both visually and aurally identical, was, in the context of fair and normal use permitted by VIVO's registration, likely to deceive or confuse. It submitted that the inherent distinctiveness of the part common to both marks was most significant. It pointed to actual confusion by sales staff and evidence that 80% of consumers were influenced by sales staff in the purchase of televisions. Vivo drew attention to the different first letters and submitted that the marks were aurally very different and Vivo had experienced no confusion.

Her Honour observed that, while Vivo had relied on the historical and current differences in the uses of the marks, the question of deceptive similarity must nevertheless be considered as at the priority date and in relation to the legitimate notional scope of the registration, by reference to the use that could properly be made of the VIVO trade mark in the future, rather than the past actual usage of the trade mark. After considerable reference to the evidence, Her Honour concluded that there would be a likelihood of confusion to warrant a finding of deceptive similarity.

Her Honour also found that the VIVO designated goods and services were the same as or closely related to those of the TIVO mark. As to the goods, her Honour again observed that Vivo sought to distinguish its own goods by reference to what it had actually sold and "gave insufficient weight to the notional scope of the registration and progressive convergence".

Honest concurrent use is an answer to section 44(1) and (2) of the Act but not section 60. Vivo contended that it was entitled to the favourable exercise of the discretion under section 44(3) of the Act unless the court were satisfied on the standard of proof enunciated in *Briginshaw v Briginshaw* [1938] HCA 34; (1938) 60 CLR 336 at 361-363 in respect of an allegation involving grave moral delinquency that Mr Grassia had adopted the name VIVO intending to take the benefit of the name TiVo. It does not appear that her Honour identified which standard of proof applied, but her Honour was clearly of the view that Vivo had not satisfied its onus of establishing honest concurrent use. Her Honour found that Mr Grassia, "being well aware of the use of the word TiVo for an innovative product and intending to secure associated advantages, selected Vivo as a word as close as possible to TiVo, distinguished only by a different initial letter. While the evidence does not permit me to determine whether Mr Grassia believed that the use of Vivo would or would probably infringe, he did not conduct or commission an adequate search."

Finally, her Honour held that "other circumstances" in section 44(3)(b) of the Act concerns circumstances prevailing prior to the priority date so that evidence of the applicant's non-use of the TIVO mark, Vivo's considerably greater sales and the concurrent use of the TIVO and TIVO marks up to the present time without confusion, was all irrelevant. Even if such matters were relevant, there were countervailing reasons for not applying the discretion under section 44(3)(b).

Secondly, the applicant contended that the VIVO trade mark should be removed under section 88(2)(a) of the Act, because its registration could have been successfully opposed under section 60, as the TIVO trade mark had acquired, before the priority date of the VIVO trade mark, a reputation in Australia, which was such that use of the Vivo trade mark would be likely to deceive or cause confusion. Her Honour observed that the reputation required was one of which a considerable number of people would be aware.

As mentioned above, as at the priority date for the VIVO mark, the applicant had not used its TIVO mark in Australia. Nevertheless, the applicant contended there was a "wealth of publicity" prior to then regarding the TIVO product. Some publicity included references to the TiVo product in US television shows with huge audiences in Australia. Vivo objected to the applicant's evidence regarding the audience size. Vivo contended that the evidence was opinion evidence but that the deponent's evidence failed to comply with section 79 of the *Evidence Act* 1995 in that the deponent "failed to explain how the processing, checking for quality and validating the use of the data in the final television database was undertaken, who undertook it and what methodology or sources were used." Her Honour did not agree. Even if that evidence did not comply with section 79, her Honour would have applied her discretion to admit it pursuant to section 190(3) of the Evidence Act.

Her Honour found there was, on the balance of probabilities, sufficient reputation in the TIVO mark prior to 18 February 2008 for the purposes of section 60 of the Act. This was so notwithstanding that there was no survey evidence demonstrating levels of recognition of TiVo at the priority date; there was no expert evidence on the impact of relatively short references in films or programmes, or the probable absorption of a variety of types and levels of reference over time; no evidence was led of the number of persons likely to have seen repeated references to TiVo in any one or more of the various media, and if so, within what time span they would have been likely to have been viewed; and, the references to TiVo were not of uniform character, quantity or quality but assumed diverse forms in different media over time.

Thirdly, the applicant contended that the VIVO trade mark should be removed under section 88(2)(c) of the Act because the circumstances applying as at 14 January 2011 (the date of application for removal) were such that the use of the TIVO trade mark was likely to deceive or cause confusion, due to the circumstances as at 18 February 2008, and additionally, the increasing convergence between the goods sold under the VIVO and TIVO trade marks which had occurred since that time. Her Honour found that, by 14 January 2011, the kind of products Vivo was selling began converging on the products sold by the applicant such that, by that time, the VIVO mark was likely to deceive or confuse as at that date.

Fourthly, Vivo contended that if the applicant had established section 88(2)(a) or (c), or both, there were discretionary factors which justified the maintenance of the VIVO registration. Her Honour held that the exercise of the power and discretions to cancel a registration under section 88(2)(a) requires a determination of the parties' rights as at the date the trade mark application was lodged. On the other hand, the relevant date for section 88(2)(c) was the date of application for rectification of the Register. No discretionary factors were found to assist Vivo in either case.

Fifthly, the applicant contended that the VIVO trade mark should be removed pursuant to section 92(4)(b) of the Act in respect of all services in class 38, on the ground that as at 18 February 2008, Vivo had no intention to use the VIVO trade mark in Australia in relation to those services, and had not in fact made good faith use of the VIVO trade mark in relation to those services prior to the commencement of the proceeding. Vivo acknowledged that it had not used the VIVO mark in respect of services and there was no evidence that it intended to do so. Her Honour concluded that since she had found that the VIVO mark should be removed on different grounds, it would be a futile exercise to consider whether to apply the discretion under section 101(3) of the Act to leave the mark on the Register.

Sixthly, the applicant contended that the respondent had infringed the TIVO trade mark by its sales of televisions, set top boxes, remote controls, computer monitors, portable DVD players, digital photo frames and home theatre systems. Given her Honour's finding of deceptive similarity for the purposes of section 44 of the Act, it is not surprising that she also found the TIVO mark will, after removal of the VIVO trade mark, be infringed by Vivo's use of the VIVO. The applicant only sought an injunction, not damages or an account of profits, should the Court order removal of the VIVO mark given the defence to infringement pursuant to section 122(1)(e) of the Act given to a person who exercises a right to use a trade mark given under the Act.

Seventhly, the applicant contended that the second respondent, Mr Grassia, who controlled the first respondent, was liable as a joint tortfeasor for the respondent's infringement. Vivo submitted that Mr Grassia, although the managing director, sole shareholder and the person responsible for the adoption of the VIVO trade mark, acted solely as an agent, employee and representative of Vivo, and adopted the VIVO trade mark without awareness of the TiVo trade mark in the reasonable belief that the sale of goods under the Vivo trade mark did not infringe any rights of TiVo. Her Honour observed that there was an element of artificiality in the case against Mr Grassia given there could be no infringement until the VIVO mark was removed.

Despite her Honour finding that Mr Grassia did not hold an honest belief that adoption of the VIVO mark would not infringe the applicant's rights, nothing he did was materially separate from that of the company. Thus, although Mr Grassia had a key role in adopting and maintaining use of the VIVO mark, her Honour did not accept there was any accessorial liability.

Finally, the respondent cross-claimed for removal of the TIVO trade mark pursuant to section 92(3) of the Act in respect of televisions in class 9, because there had been no good faith use in relation to televisions within the specified three year period. The applicant accepted that there had been no relevant use in respect of televisions but sought invocation of the discretion under section 101(3) of the Act for the mark to remain on the Register. The applicant submitted that retention of its registration in respect of televisions was principally justified by the likelihood of confusion should an unrelated company sell a TiVo-branded television next to TiVo's DVR, just as consumers would, for example, be likely to think a Sony DVR or Sony remote control emanated from the same source as a Sony television. Other factors were also raised such as non-abandonment and reputation in the TIVO mark for other goods and services. Her Honour's primary reason for applying the discretion in favour of the applicant was the likely confusion that could be caused by another trader selling a TiVo branded television concurrently with sales by the applicant of DVR's and remote controls under the TIVO mark.

***Tivo Inc v Vivo International Corporation Pty Ltd* (No 2)**
[2012] FCA 336
(3 April 2012)

Trade Marks – undertakings in lieu of injunctions pending appeal

Following her Honour's decision above, Vivo undertook to file and serve any notice of appeal within 14 days and to keep accounts of all sales of products bearing the VIVO mark and to pay such damages or an account of profits as the Court may make in favour of the applicant if it fails to file an appeal or such appeal is unsuccessful. As a result, by consent of the parties, the Court did not restrain Vivo from making such sales and stayed its orders for removal of the VIVO mark from the Register.

Facton Ltd v Rifai Fashions Pty Ltd
[2012] FCAFC 9
(20 February 2012)

Copyright – reputational damages

The Full Court in this case overturned the trial judge's refusal to award general damages for loss of reputation to the appellants (collectively, G-Star) pursuant to section 115(2) of the *Copyright Act* 1968 (Cth). Their Honours also increased the award of additional damages under section 115(4) of the Act from $11,000 to $25,000. The change in the award of additional damages is not dealt with here.

G-Star sells G-Star branded clothing throughout the world and Australia. G-Star established that the Respondent had infringed copyright in at least one of the G-Star trade marks by selling a number of counterfeit G-Star branded products in Australia. G-Star sought damages for loss of reputation. The trial judge declined to award G-Star reputational damages on the basis that they had not made out their case on the evidence by failing to identify the value of their reputation "as an evidentiary starting point."

The Full Court observed that a copyright owner's loss of reputation sounds in compensatory damages available under section 115(2) of the Act if the evidence justifies such an award. The award compensates depreciation in the copyright as a chose in action. Their Honours were of the view that the case did justify an award of reputational damages because G-Star had established a "substantial, exclusive and valuable reputation in Australia in relation to their trade marks, brand and goods" and he had found that the "brand would be diminished by the sale of counterfeit items" and that "customers would be lost because the goods are not longer considered exclusive."

The Full Court held that there was no further evidence that could have been adduced to demonstrate the value of the goodwill or reputation. It is not easy to establish a reputation and identify in monetary terms the value of the loss of that reputation. G-Star established the former and the Court was required to consider the latter.

Case Note by Kane Loxley

Grapecorp Management Pty Ltd (in liq) v Grapecorp Exchange Management Euston Pty Ltd [2012] VSC 1212

Background

This case arose from a failed Timbercorp managed investment scheme and concerned the right of the defendant ("Grape Exchange") to pay its expenses and management fees out of the scheme proceeds for work done while the plaintiff ("Grapecorp"), a Timbercorp company, was insolvent.

Grape Exchange provided grape harvesting, cultivating and marketing services to Grapecorp pursuant to a Management Agreement. Grapecorp had subcontracted these services from its own agreement with Timbercorp Securities Limited ("TSL"). The dispute related to the 2009 harvest, which took place after Timbercorp had gone into administration. Grape Exchange collected $2,831,786.87 from that harvest but paid Grapecorp only $475,313.48. Grape Exchange retained the balance of $2,356,483.40 for the payment of expenses (including management fees) that it claimed it was owed. Grapecorp sued Grape Exchange to recover the balance of monies from the 2009 harvest and other money it says was overpaid to Grape Exchange.

Grape Exchange argued it was entitled to retain the proceeds of sale on two separate bases:

1. setting-off the proceeds against expenditure under s 553C of the Corporations Act ("the Act"); and/or

2. that the direct costs, expenses and management fees were 'liquidation expenses' to be recovered in priority to other creditors under s 556(1)(a) of the Act.

Sifris J upheld both of Grape Exchange's arguments and dismissed Grapecorp's claim.

Set off – s 553C of the Act

Section 553C(1) provides for set-off between an insolvent company being wound up and a person with a debt or claim against that company where there have been ‘mutual credits, mutual debts or other mutual dealings’. Section 553(2) precludes recovery where the person has notice that the company was insolvent.

1. Mutuality

Grapecorp argued that the proceeds received by Grape Exchange were properly characterised as trust funds and that because Grapecorp was the beneficial owner of those funds the precondition of mutuality was absent. Conversely, Grape Exchange contended that it received the proceeds as agent for Grapecorp, not as trustee. Sifris J held that neither the language of the Management Agreement nor the surrounding circumstances supported a clear presumed intention by the parties that the proceeds would be trust funds, and thus found the element of mutuality to be present.

2. Post-liquidation expenses

Sifris J accepted Grapecorp’s argument that debts contingent at the date of the winding up were capable of set-off. His Honour observed that this principle is endorsed “by high and, for the most part, consistent authority” and emphasised that the critical question as to whether or not a debt is contingent is whether there is an “existing or vested right or obligation” as at the date of the winding-up. His Honour found that as at that date all relevant payment obligations on each side were existing and vested therefore providing a proper foundation for set off in relation to the amounts that subsequently matured and crystallised into money claims.

3. Notice of insolvency

By reference to the judgment of Hayne J in *Old Style Confections Pty Ltd v Microbyte Investments Pty Ltd (in liq)* [1995] 2 VR 457 Sifris J found that the relevant time for assessing a notice of insolvency is not when the debt becomes payable but when the obligation which arose from it was incurred. On the present facts that meant for the prohibition against set off under s 553C(2) to apply, Grape Exchange would have to have notice or knowledge of Grapecorp’s insolvency as at the date the Management Agreement was executed. As this was not the case, set-off under s 553C(1) was not precluded.

Priority as liquidation expenses – s 556(1)(a) of the Act

Section 556(1)(a) provides that in a winding up of a company, expenses incurred by a “relevant authority”, such as an administrator or liquidator, must be paid first, in priority to all other unsecured debts and claims. Grape Exchange argued that the direct expenditure (including management fees) associated with it providing its services from the date of the administrators appointment was properly characterised within the meaning of s 556(1)(a). Grapecorp disputed this characterisation on the basis that the expenses were not incurred in carrying on Grapecorp’s business, nor were they for the benefit of the winding-up but rather for the benefit of the landlord of the vineyard or for Grape Exchange’s own benefit.

Sifris J rejected Grapecorp’s arguments and found that the expenses did fall within s 556(1)(a).

His Honour referred to ‘expenses’ as having a wide meaning under the section which included any expenses which the liquidator may be compelled to pay in respect of preserving or realising the property of the company, or in carrying on its business. Evidence from a horticultural expert that during the harvest period (and post the commencement of Grapecorp’s winding up) “much activity was taken” by Grape Exchange “to produce high quality product” was accepted in finding that the expenses were incurred in the carrying on of Grapecorp’s business. Further, because Grape Exchange ensured the performance of Grapecorp’s own obligations under its management agreements with TSL and performed a “real and integral” role in the scheme’s management, his Honour found that Grapecorp benefited from the continuation of necessary work by Grape Exchange on the vineyard.

Conclusion

The decision demonstrates that a person who undertakes work for a company pursuant to an agreement predating that company’s insolvency can, in certain circumstances, have recourse to both or either of ss 553C and 556 of the Act to obtain payment of expenses and fees owed under that agreement and incurred after the commencement of the company’s winding up.

Insolvency Law

Case notes by Alex Fogarty

In the matter of Bevillesta Pty Limited (In Voluntary Administration) Application under Corporations Act: Martin John Green and Peter Paul Krejci as Voluntary Administrators of Bevillesta Pty Limited (ACN 008 428 162) [2011] NSWSC 417 (10 June 2011)

Creditors Trust Deeds

The Voluntary Administrators proposed a trust deed, an ingenious mechanism to restore the company to viability with a clean balance sheet. The trust deed accompanied an amended DCA. Upon signing the trust deed, the DCA would be immediately discharged. In this case, admitted beneficiaries to the trust would receive 100c, but nothing in a liquidation. The sums owed to creditors would be removed from the DCA and assets notated to the trust deed, all transactions to be governed by the general laws of trusts, not the Corporations Act. Fresh capital is raised through a scheme for creditors and the company jumps back on to the Stock Exchange.

Not surprisingly, ASIC had concerns and joined the action as a friend of the court. It argued that the administrators should not waste the court's time seeking directions and justification of the proposal under s.447D (exercise of functions and powers). Further, that the statutory protections under S445A to vary, terminate and avoid the DCA, would not be available where creditors were asked to participate in the trust deed. It warned that administrators could be suspended for failing to disclose risks to creditors; that there was potential for abuse of Part 5.3A and of the public interest. It further argued that there was no compelling commercial or legal reason for the trust deed proposal that it could not be dealt with by a DCA. ASIC relied upon ASIC Regulatory Guide 82.

The Court held that no compelling commercial or legal reason was required for the proposal. It was not an abuse of Part 5.3A for the proposal in the trust deed where the creditors voted with informed consent. The administrators had discharged the "heavy burden" of explaining to the creditors in the draft report the implications of the shift from the statutory regime and had appropriately drawn attention to the differences between the regime under the Act and the proposal for the DCA within the trust deed.

The Court was satisfied that the plaintiffs were justified in bringing the application, which was by originating motion. It commented that ASIC's own guide suggests that administrators seek directions in these circumstances. Further, that administrators need flexibility to perform their role and that the Court was not bound by ASIC's regulatory guide.

Weston in Capacity as Special Purpose Liquidator of One.Tel Ltd (in liquidation) v Publishing and Broadcasting Ltd [2012] NSWCA 79 (12 April 2012)

Extension of time for service and litigation funding

One Tel cancelled a $132m capital raising that was to be underwritten by PBL, just prior to going in to voluntary administration (subsequently, liquidation) in 2001. The SPL was appointed to investigate the failed raising and any possible actions against the respondents.

On six occasions, the Supreme Court extended the period for service of the SPL's statement of claim against PBL and Ors under *Uniform Civil Procedure Rule* 1.12. It was filed in May 07, just before the 6 year (2x3) limitation period had expired, but not finally served until August 2010. Each extension of time for service was for 6 months and was heard ex parte, although the respondents were aware of the claims and sought to appear in the hearing of the first extension. Barrett J found that the prospective defendants had no right to appear because they had not been served and the claim may never be served.

The SPL explained to the Court that the delays in service were justified because, in the case of the first four extensions, he was still investigating the affairs of the company, awaiting the decision in *ASIC v Rich* (which turned out to be irrelevant on the question of insolvency) and was finalising litigation funding.

By the time of the last two extension applications, the indemnity insurers required the *ASIC v Rich* decision to be handed down, a change of solicitors and substantial amendments to the claim.

The Primary Judge, Ward J, discharged the final two extension orders, which had the effect of rendering the claim stale and incapable of being served. The SPL did not submit on appeal that the Judge had not stated the principles leading to the exercise of her discretion in r 12.11(1)(e) but that her discretion miscarried due to errors of fact, taking into account irrelevant matters and not considering relevant matters. The Primary Judge considered the reasons for the delay and the hardship caused to the plaintiff if the orders were to be discharged. The claim would be *statute barred* and there had been significant costs. The prejudice to the defendants, on the other hand, by refusing to discharge the order, meant that cross claims may be statute barred, documents had been lost and witnesses were unavailable. "The court must take into account the policy considerations underlying the relevant limitations statute."

Sackville J in the Court of Appeal did not find that the Primary Judge had committed any error. "I think it appropriate to record, however, that if this Court was required to re-exercise the discretion conferred by the sub-rule, I would have made orders discharging the Fifth and Sixth Extensions.

Case Notes by Suzanne Kirton

Chen & Anor v Kevin McNamara & Son Pty Ltd & Anor

[2012] VSCA 63 (04 April 2012)

Maxwell P, Redlich JA and Robson AJA

This is yet another decision interpreting the classification of water storage tanks under the *Building Act* 1993 ("the Act"); in this case the context was whether they are 'domestic building works'[1i].

The present case concerned an inground water tank underneath a tennis court, constructed on a residential property on the river in Toorak. The contract between the home owners and the water tank installer included a clause referring any disputes to arbitration. There is a legislative prohibition on reference of domestic building disputes to arbitration (s.14 *Domestic Building Contracts Act* 1995 ("DBC Act")). The parties fell into dispute and the water tank installer referred the matter to arbitration. The owners challenged the reference, saying the dispute ought be determined at the VCAT.

At first instance, in July 2009, Hargrave J refused the owners' application. He considered that the only matter requiring resolution was "whether or not the construction of the water tank required a building permit under the *Building Act 1993"*. His Honour found that the tank was not a class 10b structure under the Act and did not require a building permit. Therefore the works were not domestic building works and hence the contract was not a domestic building contract. Accordingly the arbitration clause in the contract remained operative.

The owners appealed and the Court of Appeal's decision was given by Redlich JA, in April 2012.

Section 5 of the DBC Act sets out the types of work which fall within the definition "domestic building work". It was accepted at trial and on appeal that the only work defined in s.5 of the DBC Act that was capable of applying to the tank was that set out in s.5(1)(e) and (f), which provides as follows:

s 5 (1) This Act applies to the following work—

(e) any work associated with the construction or erection of a building—

(i) on land that is zoned for residential purposes under a planning scheme under the *Planning and Environment Act 1987*; and

[1] Readers of this case note will recall other decisions considering whether tanks required a building permit, in the context of Part 9 Division 2 of the Act, such as *Boral Resources (Vic) Pty Ltd v Robak Engineering and Constructions Pty Ltd* [1999] 2 VR 507 (a municipal swimming pool and an elevated water storage tank) and *Aquatec-Maxcon Pty Ltd v Barwon Region Water Authority* (No. 2) [2006] VSC 117 (underground sewerage tanks). Those decisions were not referred to in this case, as the author understands that Counsel considered they were not close enough to the dispositive points to be helpful.

(ii) in respect of which a building permit is required under the *Building Act 1993*;

(f) any site work (including work required to gain access, or to remove impediments to access, to a site) related to work referred to in paragraphs (a) to (e).

It was common ground that the land was zoned for residential use. Accordingly, the issue at trial and on appeal was whether or not the construction of the tank required a building permit under the Act. If it did not, the works would not fall within s 5(1)(e)(ii).

His Honour Redlich JA then considered the applicable parts of the Act and the Building Regulations 2006, the Building Code of Australia 2008 and public policy arguments. He concluded (at paras 33-38):

> The court is "not allow[ed] … to ignore the actual words of the statute and the criteria, namely the purpose of the structure, which Parliament has chosen as determinative of the need for a permit.
>
> Having regard to the language employed, the statutory framework within which the provisions are to be construed and the importance given to the purpose of the structure, the reference to structure must be understood as a reference to the structure as a whole and not to its individual component parts…
>
> The tank is neither a swimming pool, or a retaining wall, or the like. That was also the view of Hargrave J. As it is not contended that the tank is otherwise a class 10b structure, the appeal should be dismissed."

Construction Law

Case Note by Suzanne Kirton

[2012] NSWSC 322

Pembroke J

This decision of the NSW Supreme Court has implications for Victoria in that it addresses a court's obligation to take an interventionist role in the management of proceedings in that state's Commercial, Technology & Construction List, in light of the NSW *Civil Procedure Act* 2005. The Victorian *Civil Procedure Act* 2010 contains similar obligations.

The plaintiff Owners Corporation (the O/C) had commenced proceedings in the NSW equivalent of the TEC List against the defendant builder (Multiplex) and others, for, among other things, defects in the O/C property.

Certain of these defects had already been the subject of a claim, and the parties had entered into a Settlement Deed in 2007 in relation to that claim. The Deed contained a release in favour of Multiplex and the third defendant (Colonial) for certain itemized defects. Multiplex applied to Pembroke J for an order that preliminary questions relating to the effect of the Deed be determined separately, namely whether the Deed operated to release it from liability for the O/C's claims in respect of fire dampers, tiling and air conditioning.

The application was brought at an early stage of the proceeding, and the O/C had full warning of it. Multiplex contended that even though the resolution of the questions would not determine the proceedings, that it would "affect the dynamics of the litigation in a way that will be beneficial to all parties. It will narrow the field of litigious controversy; facilitate the just and expeditious determination of the real issues in dispute; promote a realistic appreciation by the parties of their respective prospects of success; remove from contention a swathe of allegations, particularly against Multiplex; and ensure that the hearing is not conducted on a false basis" (per Pembroke J at para 2).

His Honour noted the traditional reluctance of the courts to order the separate determination of questions, and referred to the inherent dangers of so doing, such as those enunciated in *Tepko Pty Ltd v Water Board* (2001) 206 CLR 1.

He said (at paras 3-4):

> "Ultimately however, the question of whether it is appropriate to order a separate question in any particular case is a matter for the discretion, judgment and experience of the trial judge having regard to the unique circumstances of each particular case. Significantly, the warnings in *Tepko v Water Board* (supra) preceded the introduction in New South Wales of the *Civil Procedure Act* 2005. The statutory objective that now governs the conduct of proceedings in New South Wales, namely the just and ex[2]peditious resolution of the real issues in dispute, intersects with those warnings and dilutes their effect.
>
> "Brereton J has stated that courts should now adopt a more interventionist role in relation to, among other things, the ordering of separate questions: *Integral Home Loans Pty Ltd v Interstar Wholesale Finance Pty Ltd* [2006] NSWSC 1464 at [6]. I agree. And there is a prevailing view among judges of the Commercial Technology & Construction List, which I share, that the judicious use of the power to order separate questions may considerably advance the interests of justice in some complex cases."

His Honour then considered the authorities on the interpretation of a deed of release, including *Grant v John Grant & Sons* (1954) 91 CLR 112.

It is clear from His Honour's decision that he was leaning in favour of Multiplex's version of the release, in light of the authorities, correspondence between the parties at the time they signed the Deed and especially the fact that the O/C had been advised by specialist construction litigation solicitors at that time.

However the O/C advised that it intended to call evidence to dispute the evidence before the Court on the application, and His Honour ruled that in those circumstances, he would not make the orders sought by Multiplex. His views are clear (in paras 40-41):

> "… Nonetheless, although I regard the likelihood of some of the plaintiff's contentions as dubious, they have been put forward by Mr Simpkins SC in good faith and I do not question them for the purposes of the argument on this application. I have made clear however that the allegations should be pleaded in a reply and that any such reply should be appropriately certified with the requisite statement as to a belief that there are reasonable grounds to support them.
>
> Ultimately however, the fact that the plaintiff wishes belatedly to advance these allegations, makes it impossible for me to make the orders for separate determination that Multiplex seeks. Their resolution will necessitate a wide-ranging factual enquiry that may be consistent with the application of equitable principle explained in Grant v John Grant & Sons (supra), but which is inconsistent with

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the economy and convenience which normally attends the hearing of a separate question. It would not be appropriate to hear and assess that evidence in isolation from the other issues in the case…"

Conclusion

Courts are to be commended for taking a more proactive role in the way proceedings are dealt with. This is the intention of the various states' Civil Procedure Acts. It is to be hoped that the O/C had valid grounds for putting off the determination of the Deed for another day and that it was not simply delaying the inevitable. His Honour has addressed that concern by requiring the appropriate certification of reasonable belief in the reply.

Construction Law

Case Note by Suzanne Kirton

[2012] VSCA 74 (Unreported, Buchanan and Hansen JJA, Hollingworth AJA,
26 April 2012)

Twelve months ago in this publication, Caroline Kirton provided a case note on the application for leave to appeal in this matter. Leave was granted and the appeal has just been heard and determined. It was dismissed.

Background

The dispute 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.

The legal proceedings at VCAT

The Owners commenced proceedings against the Builder in the Victorian Civil and Administrative Tribunal ('VCAT') in 2009 for alleged defective and incomplete works. 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.

The trial judge of the Supreme Court

The Owners appealed the VCAT decision to Dixon J. His Honour allowed the appeal, finding 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 management of the project had not caused the defects and consequently the claim was bound to fail.

Court of Appeal - Leave application

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 be responsible for the construction work ('the Decision').

For the reasons set out in the previous case note, the Court of Appeal held that the Decision was sufficiently uncertain to grant the leave.

Court of Appeal - the appeal

The Court of Appeal has now finally disposed of the matter in a succinct and unequivocal ruling. Buchanan JJA gave the leading judgment, with the others agreeing. In summary, His Honour held:

- In interpreting the deal reached between the Owners and the Builder, the trial judge was entitled to have regard to plans and drawings obtained subsequent to the Agreement.
  - Dixon J had said that he was not using the documents as subsequent conduct to ascertain the parties' intention at the time of formation of the contract, but that he was treating the contract as "dynamic, so that the parties' conduct could clarify or illuminate what was once uncertain".
  - Buchanan JJA preferred to describe the "manifestation of mutual assent as being implied from the circumstances, one of which was the signing of the agreement", but did not disagree with the approach.
- The Agreement provided that the owners would pay the contractors and suppliers directly. The Builder had no legal ability to require work to be performed or rectified by those who contracted with the Owners.
- Based on the proper construction of the Agreement, the trial judge had determined that the scope of the Builder's obligation was the provision of contract management services; it was not obliged to build the apartments. The Owners contended in the appeal that the Builder's scope of works was much wider. Buchanan JJA disagreed, holding that "I think it hardly likely that the respondent assumed the risk in respect of work and materials supplied by persons chosen and engaged by the [Owners]" and that "I think it is equally unlikely that the respondent would have executed a contract under which it undertook responsibility for the due performance of building work when that work was defined only by … rudimentary … insufficient [drawings]".
- The trial judge had construed the Agreement according to its text. He did not base this decision on extraneous material. Accordingly His Honour did not offend the rule in *Codelfa Construction Pty Ltd v State Rail Authority of NSW* [1982] HCA 24; (1982) 149 CLR 337.

- Further, even if he did, the Agreement was latently ambiguous in that there was no express term describing the nature and scope of the Builder's work and there were provisions pointing in different directions with respect to this question. Accordingly it would have been legitimate, in accordance with *Codelfa*, for the trial judge to take antecedent negotiations into consideration when construing the Agreement.
- Further, the Tribunal made findings on the evidence of the actual, united intention of the parties in relation to the Agreement. These findings are admissible in accordance with the exception of Mason J in *Codelfa* that "It is possible that evidence of mutual intention, if amounting to concurrence, is receivable so as to negative an inference sought to be drawn from surrounding circumstances" (such as the written agreement).

The effect of the decision

It is the author's view that the effect of these decisions is that:

- Obviously, each case will turn on its own facts.
- The obligations of a "builder" may be limited to supervising or managing the building work if that is all he was engaged to do.
- The Tribunal (as this is where s.8 DBC Act cases are heard) is entitled to look behind the text of the written agreement if it has evidence that the parties' unanimous intention was otherwise to what was written.
- The practical effect of the Decision was that in order to rectify the defects, the Owners will have to exercise their rights against individual contractors.
- The terms of s.8 of the DBC Act do not cater for management contracts. Consumers generally will not appreciate the difference, nor realise that they are not protected from builder's bad workmanship as intended.
- The effect of the Decision may be to make the Owners 'owner builders'. This means that if they want to sell the apartments within six years, they have 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.
- This also leaves potential purchasers exposed, in circumstances where they may not be aware that the "Builder" or its warranty insurer is not responsible for defects.

Legislative Developments

The state government has issued a consultation paper on the "**Victorian Domestic Building Consumer Protection Framework**" and is seeking submissions.

The Bar is preparing a submission and we invite members to suggest matters that should be included to the Chair of the Construction Law Section of CommBar, Caroline Kirton SC, by Friday 1 June.

The link to the paper is available here.

Upcoming Events

Building Dispute Practitioners Society

Discussion Night

20 June 2012

www.bdps.com.au

Insurance and Professional Negligence

Case Note by Clive Madder

***ALL COVERS AND ACCESSORIES PTY LTD V KAMAL SIDAWI* [2012] VSC 48**

Does a boat repairer need to inform its customer that it has no insurance to cover the risk of a boat being damaged by an accidental fire in the workshop? In a recent appeal from the Magistrates' Court, Mukhtar AsJ confirmed that there was no such duty; as a matter of generality, a bailee does not owe a duty to the bailor to warn that there is no insurance in place to cover damage to the bailor's goods.

Background

Mr Sidawi delivered his boat and trailer to All Covers and Accessories to have a canopy and storm cover installed for $1,500. Two weeks later, after close of business, a fire broke out in the workshop and destroyed everything in it including Mr Sidawi's boat and trailer. Mr Sidawi issued proceedings in the Magistrates' Court for the market value of the boat and trailer.

A bailee owes a duty to take care of goods in its custody as is reasonable in the circumstances. Further, the bailee must prove that it did take such reasonable care if the goods are lost or damaged whilst in its control; the onus of proof is reversed.

Mr Sidawi was unrepresented in the Magistrates' Court. It would appear that because of this, and because of the reverse onus, the matter proceeded with the Magistrate first hearing evidence from All Covers and Accessories in respect of the steps it took to take care of Mr Sidawi's boat. Its director gave evidence about the layout of the premises, the fire breaking out, and his failed attempts to extinguish it. All Covers and Accessories' counsel then intended to lead evidence from its expert.

However, before the expert was called, Mr Sidawi conceded that the fire damage to his boat and trailer was not caused by All Covers and Accessories' negligence. He explained to the Magistrate that his concern was that it did not have insurance to cover the fire damage. He was not aware that in effect he bore the risk of damage to his boat and trailer.

It is well established that a bailee is not liable for accidental fire. But, as stated in *Palmer on Bailment*, 'In places like garages where hazardous operations are often carried on, the burden of disproving fault in a case of fire damage will often be a very weighty one'.[3]

A boat workshop is probably analogous to a garage, and no doubt All Covers and Accessories' expert's evidence would have been crucial in disproving negligence. However, Mr Sidawi having made the concession that he did, the Magistrate did not determine the case on the basis of All Covers and Accessories' breach of its duty of care in respect of the damage to the boat and trailer. Rather, the Magistrate found that, because of the 'unusually high value' of the boat, All Covers and Accessories owed a duty to advise its customers that it did not have insurance and gave judgment in favour of Mr Sidawi.

Mukhtar AsJ's decision

On appeal the parties did not dispute that in general a bailee is not the insurer of goods, and is not under a duty to insure them. In the circumstances, counsel for All Covers and Accessories asked rhetorically: if a bailee is not an insurer and is under no duty to insure, how can there be a duty to warn about the absence of insurance?

Mukhtar AsJ was not prepared to find that there could be no general application in the law of bailment of a 'failure to warn', in contrast to personal injury cases. Nor was he prepared to find that, because a bailee owes a duty to take reasonable care of goods, such duty extends to warning the bailor of the absence of insurance.

His Honour found that a duty to warn in respect of relationship of bailment:

> '[...] could only conceivably arise where depending on the particular facts of a case, the bailee knew or could foresee risks or hazards to the goods, or had some other apprehension concerning the safe keeping and preservation of the bailed goods. There might then be a question whether a duty arose to warn the consumer of the unusual risk, and thought might turn to insurance.'[4]

Mukhtar AsJ rejected the Magistrate's finding that where the goods are of an unusually high value, this justifies a departure from the general principle that a bailee's duty of care does not include an obligation to warn the bailor that it does not have insurance to cover the goods. His Honour found no Australian authority dealing with the issue, but reviewed two Canadian authorities:

- *Mason v Morrow's Moving and Storage Ltd*[5] ('*Mason*') where the British Columbia Court of Appeal found that there was no such a proposition; and

- *Punch v Savoy's Jewellers Ltd*[6] ('*Punch*'), which the Magistrate had relied upon. However, in

[3] Norman Palmer, *Palmer on Bailment* (London: Sweet and Maxwell, 2009)
[4] At [10].
[5] *Mason v Morrow's Moving and Storage Ltd* 87 DLR (3d) at 234; overturning the trial decision [1977] 2WWR 738

Punch the Ontario Court of Appeal held that the bailee was *contractually* required to insure a valuable ring for its true value as part its obligations in arranging carriage.

Mukhtar AsJ's review of *Mason* is particularly insightful because it highlights the nub of the issue. In *Mason* the bailees as a matter of course took steps to advise their customers that goods were not insured, but failed to do so in respect of the occasion in question. The goods were destroyed by accidental fire. Mukhtar AsJ referred to the following passage in *Mason*:

> '[...] The law does not impose a duty to warn of every conceivable risk, but only where a risk is one of a known and specific unusual danger. ... The respondents were not exposed to any known or specific unusual risk or harm by virtue solely of not being informed or warned [of the lack of insurance] by the appellant.'[7]

A bailee's failure to advise the bailor of the absence of insurance, on its own, does not *cause* loss to the bailor in respect of damage to the bailed goods. There would only be limited circumstances where the law is likely to intervene. Mukhtar AsJ commented:

> 'There is a risk that even with the greatest care goods will be destroyed. But the law does not impose upon the defendant a duty to warn of every conceivable risk, including the risk of accidental loss. What the law requires, broadly speaking, is a risk of a known and specific unusual danger or some such description. In that situation, where the bailee knows of such a thing, it might be reasonable, depending on all of the facts, to expect a warning to be given about the insurance position.'[8]

Comment

Mukhtar AsJ's decision is on its face straightforward. However, arguably it ought to be sufficient at law to require a bailee to warn the bailor of a particularly unusual risk of damage to which the goods are to be exposed. For example in *Thomas National Transport (Melbourne) Pty Ltd v May & Baker (Australia) Pty Ltd*[9] the High Court found the bailee TNT liable when its employee stored the goods at his own house without any fire extinguishing equipment overnight and they were destroyed by fire. The majority found this to be a contractual deviation for which TNT was liable.

Insurance cover is readily available in respect of goods. Most people and businesses have insurance cover particularly for valuable goods. Where goods are damaged accidentally (not negligently) whilst in the care of a bailee, the bailor's loss may result from a lack of insurance which it could have arranged itself. Such loss is purely economic. Inevitably the owner of goods is in the best position to protect its own economic interests by arranging insurance for the required value, or choosing not to do so as the

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[6] *Punch v Savoy's Jewellers Ltd* (1986) 23 DLR (4th) 546
[7] At [46]
[8] At [50]
[9] *Thomas National Transport (Melbourne) Pty Ltd v May & Baker (Australia) Pty Ltd* (1966) 115 CLR 353

case may be.[10] Whilst a bailee may have a duty to advise of an unusual risk of damage, the circumstances when it would owe a duty to protect the bailor's economic interests by advising of its own lack of insurance are likely to be very limited indeed.

[10] See Gillard J's comments in respect of insurance and purely economic loss in *Johnson Tiles Pty Ltd and Dean v Esso Australia Pty Ltd & Ors* [2003] Aust Tort Rep ¶81-692 at 63,710 - 63,711.