CommBar News

THE COMMERCIAL BAR ASSOCIATION

Leading Strategically ™

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Forthcoming Events and Updates

UPCOMING EVENTS

Building Dispute Practitioners Society

Cocktail Party

15 February 2011

Fourth International Construction Law Conference

Melbourne

6 to 8 May 2012.

Further information can be found at the conference website www.constructionlaw2012.com

President's Report

In this report which will follow the CommBar AGM, I note the following in relation to 2010-2011

Executive

Commercial Barristers Association (Executive Committee)

John Digby QC (President), Melanie Sloss S.C. (Senior Vice President), Albert Monichino S.C. (Vice President – Convenor), Ian Percy (Treasurer), William Lye, Caroline Kirton, Edvard (Will) Alstergren.

Sections

CommBar's 15 separate Specialist Sections have throughout the last year, in addition to contributing to the bulk of the Victorian Bar's CPD Seminars, conducted discussion groups and promoted education and standards of professional conduct both in their specific Sections and more generally at the Victorian Bar.

Main Activities in 2010 -11

The Commercial Barristers Association of Victoria (CommBar) enjoyed a characteristically busy and successful year in 2010-2011 including:

1. Substantially increasing its membership to 495 members;

2. Assisting the Victorian Bar by conducting, as part of the Victorian Bar's CPD Program, 25 CPD events in approximately the last twelve months with further CPDs planned for the balance of 2011. CommBar has also added two Special Seminars addressing Commercial Advocacy Skills to the CPD Program for 2011. Further, CommBar is at the Victorian Bar's request, developing a CPD Course specifically designed to assist the Readers at the Victorian Bar.

3. Commbar has liaised and participated in a number of events directed at improving its relationship with Australian Corporate Lawyers Association ('ACLA') and plans to participate in the major ACLA Seminar on 24-25 November 2011, at which CommBar Members will deliver Papers.

4. CommBar has created three new Committees to address areas which it believes deserve attention, namely, CommBar Discovery Procedures Review Subcommittee, CommBar ACLA Relations Subcommittee and the CommBar Readers Course Liaison Subcommittee.

5. CommBar produces periodic high quality CommBar Newsletters which include topical information for its Members and Case Studies.

6. CommBar constantly maintains and has plans to upgrade CommBar's excellent Website which is directed to promoting CommBar Members to the Commercial Legal Practitioners of Victoria and beyond.

7. In January 2011 CommBar, at the request of the Federal Law Reform Commission, submitted a Paper on the topic of the Management of Discovery in Federal Courts. CommBar also during the year provided input to other bodies in an effort to serve the public interest in relation to legal issues.

8. In August of 2011 CommBar, largely through the efforts of Ian Percy, also hosted a very successful dinner in honour of the Honourable Justice Byrne QC.

9. CommBar assisted the Supreme Court and Melbourne University (and others) to organise and promote a successful afternoon Seminar in the Banco Court of the Supreme Court on 13 August 2010, addressing Current Issues in Commercial Law.

10. On 8 September 2010 CommBar hosted a Dinner in honour of the Honourable Alan Goldberg QC AO, CommBar's first President. The evening was an outstanding success.

11. On 15 September 2010, William Lye, Chair of the Asia Practice Section of CommBar, also organised a very successful CommBar reception in the Neil McPhee Room to welcome the Honourable Chief Justice Chan Sek Keong of Singapore and Justice of Appeal V K Rajah. Chief Justice Marilyn Warren and some other Justices of the Supreme Court were also in attendance.

12. CommBar held its annual Social Event hosting about 250 Judges, Commercial Lawyers, Corporate counsel and CommBar Members on 6 October 2011, in the Victorian Supreme Court Library. This very well supported event provided an opportunity for those present to hear about CommBar's activities and to meet CommBar Members and discuss matters of mutual interest.

    I note that CommBar was privileged to have the Chief Justice, the Honourable Marilyn Warren AC and also the Attorney General the Honourable Robert Clark MP in attendance on 6 October 2011. Both the Chief Justice and the Attorney General spoke about the quality and effectiveness of the Commercial Court of the Victoria Supreme Court and the Attorney General also spoke about a number of important current issues being addressed by his Ministry.

13. On 13 October 2010, William Lye's Asian Practice Section was also instrumental in organising (in conjunction with VBI and the LIV and Monash University) a one day seminar in the Supreme Court, focusing on " Engaging Asian Economies – Law and Practice ".

14. On 20 October 2011 CommBar's Asia Practice Section's successfully conducted its "2nd Engaging the Asian Economies – Law & Practice Conference – Working with Asia", Conference at Monash Law School Chambers, 555 Lonsdale Street Melbourne.

New Committees

CommBar's has establishes new Subcommittees which are working to achieve their objectives.

Those Committees are:

(i) Review of Discovery Procedures (Courts – Tribunals) Sub-Committee;
(ii) Readers Course Liaison Sub-Committee;
(iii) ACLA Relations Sub- Committee.

Marketing Project

CommBar's Executive has also recently undertaken an extensive session with independent Marketing Consultants aimed at developing and implementing more effective marketing strategies to help CommBar Members to strengthening their commercial practices at the Victorian Bar and perhaps elsewhere.

Objectives for 2012

(i) Develop and commence the implementation of an effective Marketing Plan;
(ii) Increase the number and quality of CPD presentations, particularly in areas in which there are lower numbers of CPDs being presented.
(iii) Increase the expedition and effectiveness of the work of the CommBar Subcommittees

CommBar thanks the Victorian Bar Office and in particular its staff, Stephen Hare (General Manager), Sally Bodman (Marketing Manager) and Courtney Bow (Events & Communication Assistant) for their regular and excellent support to CommBar.

John Digby QC

President

CommBar

Commercial Bar Association Cocktail Party – 6 October 2011

































Intellectual Property

Case Note by Alan Nash

VICTORIA July 2010

Keller v LED Technologies Pty Ltd [2010] FCAFC 55 (9 June 2010)

Designs – validity – whether designs must be "reasonably clear and succinct" – application of the test for distinctiveness under the Designs Act 2003 – test for liability of joint tortfeasors

Trade Practices Act – costs – appropriate order where a parallel TPA claim is made out but damages above those for design infringement are not proven

LED Technologies is the owner of two registered designs for rear lights for vehicles, having either dual or triple lenses that consist of light emitting diodes (the Designs). The corporate appellants were companies that imported and sold the "Condor" range of rear lights, which were alleged by LED Technologies to infringe its statutory monopoly in the Designs. The remaining appellants were two directors of those companies, said by LED Technologies to be personally liable for design infringement as joint tortfeasors.

The packaging for the Condor products contained representations that those products met certain Australian vehicle design standards. LED Technology also claimed that the corporate appellants had thereby contravened ss 52, 53 and 65C of the TPA (the latter of which prohibits false claims of compliance with "prescribed consumer product safety standards"). The directors also were sued as persons said to have been "knowingly concerned" in those contraventions, pursuant to s 75B of the TPA.

At first instance, Gordon J found in favour of LED Technology in respect of the design infringement claims, and dismissed a cross-claim for revocation. In relation to the TPA claims, a breach of ss 52 and 53 had been made out, but was not shown to have caused loss additional to those caused by the design infringement and effectively was dismissed with costs. The appellants appealed against the findings against them; LED Technologies also cross-appealed her Honour's findings, the costs order in respect of the TPA claims and the orders concerning the case under s 65C.

On appeal, the appellants pressed their original arguments that the Designs were invalid for lack of certainty as to the scope of the monopoly, and because they were not new and distinctive (although "newness" was conceded). Besanko J (Emmett and Jessup JJ agreeing) rejected those arguments.

The clarity issue arose in part because of the somewhat unusual situation where some of the copies of the Designs submitted to IP Australia were in pink ink, and once accessed through the online designs database those representations were less than ideal. The trial judge considered that the depictions (particularly when the electronic images were magnified) nevertheless were “reasonably clear and succinct”, borrowing from the language of Fullagar J in the *LJ Fisher* case under the *Designs Act 1906*. Besanko J approved of that language, noting that in the context of the *Designs Act 2003*, which describes designs in terms of overall appearance and visual features, clearly “there must be a test of this nature”; Emmett J also held that that was the relevant test. Each of their Honours rejected the appellants’ suggestions that a lack of clarity also arose because of potential uncertainties as to Designs based on their depictions. Besanko J also took the opportunity to confirm that “the principles as to the use and admissibility of expert evidence” particularly those identified by Lockhart J in *Dart v Decor* are the same under the *Designs Act 2003* as they were under the *Designs Act 1906*. That is, such evidence was plainly admissible, but ultimately it was a question for the Court to determine (a sentiment echoed by Emmet J).

In finding against the appellants the trial judge considered the “extensive” evidence as to prior art and identified four particular features of the Designs (one of which also could be found in the formal statement of newness and distinctiveness for those Designs). Her Honour noted that no previous design embodied all four of those elements, and declined to compare the Designs against the prior art as a whole.

The requirement that a design be new and “distinctive” was introduced in the *Designs Act 2003*; under the 1906 legislation the requirement was new and “original”. The *Designs Act 2003* provides that a design is distinctive unless it is substantially similar in overall impression to a design that forms part of the prior art base. Section 19(2) prescribes certain factors that must be considered when assessing substantive similarity to existing designs, including the “state of development” of the prior art and the particular features identified as being distinctive in a design’s statement of newness and distinctiveness (if any).

The appellants argued that her Honour had not given sufficient regard, if any, to the “state of development” of the prior art or the statement of newness and distinctiveness for the Designs. In the latter regard, they submitted that attention should have been paid only to the one (of four) distinctive feature identified by her Honour that expressly was mentioned in the statement. They argued also that her Honour ought to have had regard to the prior art base as a whole, although they accepted that it was not permissible to “mosaic” together the features of various existing designs with a view to defeating a design registration.

Besanko J dismissed each of those arguments. In his Honour’s view, the trial judge had been correct to consider the state of development in the same manner as the concept had been applied under the *Designs Act 1906*. That is, the extent of difference required to make a design distinctive will depend on the state of development of the relevant prior art base: a more developed prior art base will mean that smaller differences will be sufficient to result in a finding that there is no substantial similarity; a less developed base would mean that larger differences would support such a finding. Extrinsic material such as the ALRC report that led to the enactment of the *Designs Act 2003* did not suggest that Parliament intended to change the law in this regard. In terms of the statement of newness and distinctiveness, some aspects of the trial judge’s findings may have been in error, but her Honour was mindful of the need to consider that factor and on a re-examination by the Court, a different conclusion was not reached: the Designs were valid.

On infringement, the appellants argued that their products were not substantially similar in overall impression to the Designs because two of the four features that distinguished the Designs from the prior art base (including a feature emphasised in the statement of newness and distinctiveness) were not present in the Condor products. On Besanko J’s view, however, those matters were not of great significance and on balance the Condor products embodied a design which was substantially similar in overall impression to the Designs (and thereby infringed).

As to the directors' liability as joint tortfeasors, the trial judge had found that each had personal knowledge of the Designs, and each had knowingly pursued a sequence of actions that was likely to infringe the Designs (or at least had been "consciously indifferent" to the risk of infringement) and each had a "common design" with the corporate appellants to infringe. The members of the Court delivered separate judgments on this point. Each of their Honours overturned that finding with respect to Mr Armstrong (the director who had a lesser involvement in the day to day running of the corporate appellants). Emmett and Jessup JJ also upheld the appeal in respect of the other director, Mr Keller; in contrast Besanko J agreed with the trial judge and would have found him liable as a joint tortfeasor.

Each of their Honours noted that to establish that a person is a joint tortfeasor with a company, it is necessary to show something more than that the company acted through that person; in the case of a director, it is necessary to show that the person was doing something more than simply acting as a director. The person must do something that makes them "an invader of the victim's rights".

Each of Besanko J and Jessup J noted that the common law test for liability as a joint tortfeasor was not entirely settled, and different tests (named for the cases in which they were first formulated) had come to be applied by the courts. Under the *Performing Rights Society* test a director is liable as a joint tortfeasor where he or she has directed, procured or (in some formulations) authorised the infringing acts by the company. Under the *Mentmore* test, a director is liable only where he or she has engaged in the "deliberate, wilful and knowing pursuit of a course of conduct that is likely to constitute infringement or which reflected an indifference to the risk of it"; it is not necessary to prove, however, that the director knew the relevant acts were infringing acts. To this might be added a third test from the *Root Quality* case, under which the director must be "so personally involved in the commission of the unlawful act that it is just that he should be rendered liable".

Justice Jessup set out a detailed examination of the conflicting lines of Australian and UK authority, and determined that it would not be a satisfactory resolution of the present case to avoid confronting the uncertainty that had arisen. To that end, his Honour preferred those decisions in which a requirement of liability was that the director should "make the tort his or her own". The utility of that test lies in "the focus it gives to an understanding of the principle of dual or multiple participation", which is at the heart of joint tortfeasance. The test also highlights the "crucial distinction between acts which are done for and in the service of the company and acts which, in addition, are done in the director's own personal capacity" (or indeed in the personal capacity of any servant or agent of the company). Under that approach, neither Mr Armstrong nor Mr Keller could be found to be a joint tortfeasor in the infringement of the Designs.

Besanko J felt that the *Performing Rights Society* test was "reasonably clear", and meant that a sole director/employee invariably would be liable as a joint tortfeasor with the company under that test. By contrast, the *Mentmore* test lacked precision. His Honour also noted the Full Court's comments in *Allen Manufacturing* to the effect that it is doubtful whether there is a significance difference between the tests. Either way, a "close personal involvement in the infringing acts" by the director must be shown to sustain a finding of liability. His Honour noted that the corporate appellants effectively were two-person companies and their directors would be expected to have a greater involvement in their operation than might a director of a large company. Under either test, Besanko J felt that Mr Keller met the criteria for a finding of liability. In Mr Armstrong's case, his Honour did not think that he had "such a close personal involvement in the infringing acts" that it was proper to conclude that he "directed or procured" them.

Emmett J upheld the appeal against the finding of liability on the part of the directors liability primarily due to an absence of evidence to support a finding that (in the case of Mr Armstrong) he was aware of infringement or that he had set out to infringe or was consciously indifferent the risk, or to support a finding (in the case of Mr Keller) that he “intended and procured”, or that he “shared a common design”, that infringement should take place.

In terms of LED Technology’s ss 52 and 53 claims, these failed at first instance primarily because LED Technology failed to prove that it had suffered any damage above that which it had suffered as a result of the design infringement. The trial judge held further that those claims had failed and therefore awarded costs against LED Technologies. The Court (Besanko J with Jessup J agreeing, Emmett J in a separate decision) held that that costs order was in error. But for the successful finding on design infringement, LED Technologies would have been entitled to damages greater than nominal damages for the TPA contraventions; the appellants had contravened the TPA, and that finding should be reflected in a costs order in favour of LED Technologies. Emmett J also felt that there would have been some utility in the Court making the declarations that LED Technologies had sought at first instance, but Besanko and Jessup JJ did not share that view.

LED Technologies also succeeded in its appeal concerning the s 65C claim, essentially because the trial judge had reversed the onus of proof of demonstrating compliance with the applicable standard (which in this case was somewhat “tricky”, based on overseas regulations and focused on manufacturing processes rather than individual products). LED Technologies was, however, unable to convince the Court that it had suffered damage above that incurred as a result of the design infringements.

Acohs Pty Ltd v Ucorp Pty Ltd [2010] FCA 577 (10 June 2010)

Copyright – whether source code a literary work – whether documents generated by a computer program an original work – works of joint authorship – compilations – databases – implied licences – effect of copyright notices – assignment of copyright

Each of Acohs and Ucorp is in the business of creating and making available Material Safety Data Sheets (MSDSs) in relation to hazardous substances, in an electronic format. Each produces MSDSs for individual manufacturers, suppliers or importers of such substances, and also makes available a library of MSDSs to customers who handle a large number of such substances and prefer the convenience of accessing a single repository for all relevant MSDSs. In Australia, the type of information and general format of MSDSs are the subject of regulation.

Acohs’ collection of MSDSs effectively is generated by its “Infosafe” system, which draws upon relevant information in a central database and assembles it to produce a requested MSDS. In other words, when a customer requests a MSDS using Acohs’ system, that system assembles the requisite data, compiles source code using that data, and then sends that source code to the customer’s computer; the source code then causes the requested MSDS to appear on the customer’s screen in a conventional way. Customers can subscribe to online access to Acohs’ system, or have it installed on their own system with a customised version of the central database; in the latter case, the customer also can use an “editor” module to create or modify its own MSDSs.

In some cases, an Acohs employee “authored” a new MSDS by entering data into the database using a computer “editor” application designed to gather that data. In some cases the data entered was selected from a list, in other cases the employee entered a short passage of text. The employee would not assemble the MSDS on the screen by this process, but could (and did) review a draft MSDS generated from the data that was entered. Where a required MSDS already existed but was not created by Acohs, an employee would “transcribe” verbatim the data present on that MSDS using the same process.

The MSDSs in Ucorp's database are available in various formats (such as HTML, pdf or word processor files). Some of the MSDSs in that collection were authored by Ucorp. This occurred because Ucorp supplemented the MSDSs of which itself was the author with MSDSs found on the Internet using a "spider" program; Ucorps would then download the MSDS without amendment and then store it as part of its database. Of the Acohs MSDSs located and copied in this way, some were authored by Acohs, and others were ones that Acohs had transcribed.

Acohs sued for copyright infringement, claiming ownership of each MSDS (although originally Acohs had claimed ownership only of the particular "layout, presentation and appearance" of its MSDSs, which conformed to Acohs templates) and the HTML source code for its MSDSs. It specifically disavowed any claim based on the "bare unformatted data" for each MSDS. Ucorp raised a variety of defences that went to the heart of Acoh's claims of copyright ownership and the purported lack of Ucorp's rights to use Acohs' MSDS.

Justice Jessup considered first whether the source code for each MSDS was a literary work. His Honour noted that there was no automatic reason why source code could not be a literary work, since the code was intelligible and could convey meaning to someone skilled in the area; the difficulty was whether the source code was "original". His Honour described "the need for a work to spring from the original efforts of a single human author" as a "fundamental requirement of copyright law". In this case, however, the Infosafe system automatically generated the source code for a MSDS, albeit populated with data entered into the system by a human operator. His Honour found Acohs' suggestions that the computer should be considered as merely a tool to be unconvincing; the authors and transcribers did not have the source code in mind when they went about their task, and were not computer programmers. Conversely, it also would be artificial to consider the computer programmers who wrote individual fragments of source code used in the final compilation as authors of "thousands of MSDSs yet to take a material form".

Acohs argued that the source code for each MSDS was a work of joint authorship, the authors being computer programmers and the authors/transcribers; the former wrote the fragments of source code and the program to compile then, and the latter entered the data that formed the rest of a MSDS' source code. His Honour rejected this argument, and Acohs' suggestions that the source code was analogous to encyclopaedias, phone directories and similar works in which numerous persons had some input without reference to the contribution of other authors. Here, the programmers and the data entry staff did not "collaborate" in the requisite sense, and their respective contributions were separate along the "axes of communication, time, expertise and content". Accordingly, the code was not a literary work.

The next issue was whether each MSDS was itself a literary work. His Honour had little doubt that each MSDS was a literary work "according to ordinary understanding". His Honour also agreed with Acohs that each MSDS should be considered a "compilation" in that it was created by an Acohs author by bringing together information about a substance, appropriate risk phrases and other expressions selected by the operator, coupled with the visual and organisational elements present in Acohs' templates. Justice Jessup rejected Ucorp's suggestion that Acohs' employees did not reduce an MSDS to material form, since the evidence was that an Acohs author reviewed each finished MSDS on screen; a person can become the author of a work "by taking steps and carrying out functions at some time previous to" when the work itself is finally "made".

His Honour's findings, however, were limited to MSDSs that were "authored" by Acohs staff. Copyright in MSDSs that had only been "transcribed" belonged to the author of the original MSDS. Acohs' "transcribers" made no original contribution to the process, and did not compile different elements from various sources. Nor did they have any control over the layout or appearance of an MSDS. Again, it would be artificial to suggest that Acohs staff who did devise and modify the program that gave the MSDSs their particular appearance, as distinct from making any contribution to their content, were authors in a copyright sense.

Acohs raised a separate claim in respect of a particular customer's MSDS database, which had been provided by Acohs. The MSDS accessible from that database had been downloaded by Ucorp when it won that customer's business. Acohs argued that the database, alternatively the collection of individual MSDSs that could be drawn from it, was a compilation (which might avoid the consequences of his Honour's finding concerning the transcribed MSDSs). His Honour rejected that argument, stating that he had "difficulty with the concept that a database, as such, might be regarded as a literary work". The issue was not whether it was a compilation, but more whether it had taken a material form. An individual MSDS called up from the database could be a literary work, but the individual pieces of data used to compile it should not be regarded as amounting to a copyright work. The problem with the alternative claim was that the alleged "compilation" of the individual MSDSs never had a discrete existence as a single work, and in any event it was the customer who had undertaken the relevant selection process as to which MSDSs to include in that "compilation".

That Ucorps had reproduced the source code and Acohs' MSDSs in a material form was not seriously disputed. Ucorps argued (successfully, as it transpired) that that reproduction was done, however, within the scope of an implied licence from Acohs. Ucorp adopted the reasoning of Merkel J in *Acohs v Bashford* (in which Acohs, faced with a claim of copyright infringement in relation to transcribed MSDSs, successfully argued the implied licence point). Justice Merkel highlighted the regulatory context in which MSDSs are required to be created, published, disseminated and updated from time to time as a source of safety information for hazardous materials. Authors of MSDSs impliedly licensed their use in that context. In *Bashford,* Acohs' provision of specific MSDSs relevant to a particular customer fell within the scope of that use; although less clear, the inclusion of an MSDS in a library of MSDSs also fell within the purpose, since a MSDS would only thereafter be accessed by a party having a need for that particular safety information.

Acohs sought to distinguish *Bashford* on the basis that Ucorp had not reproduced MSDSs to meet specific customer requests (although Acohs failed to discharge its evidentiary burden in this respect) and had acted indiscriminately for its own commercial benefit. According to Jessup J, the real question was whether the purpose for which the copying occurred was one that was "fairly within the contemplation of the [MSDS] regulations". Both the "industrial" and "library" uses by Ucorp satisfied that test, even though in some cases the copying was only in anticipation of a future demand for individual MSDSs. Further, they were uses that fell within the contemplation of Acohs' copyright notice that accompanied its MSDSs (at least until 2007, when the litigation commenced); as such, those notices did not deprive Ucorp of the right to reproduce an Acohs MSDS. The form of the notice adopted by Acohs after 2007 was problematic, in that it claimed copyright only in respect of source code and a MSDS' layout and presentation, and purported to limit use of a MSDS (even by, it seemed, customers with an existing licence to use them) to "personal use only".

Ucorp also argued that Acohs had assigned copyright in the MSDSs to certain customers under a variety of agreements under which Acohs had provided its MSDS authoring services. Many of these included a provision that began "Acorp shall assign copyright..."; one customer's agreement provided for the "assignment of copyright, including future copyright" in respect of material created by Acohs; a third form of agreement included somewhat complex foreground/background IP provisions. In relation to the first type of assignment clause, his Honour held that this amounted to no more than a promise to assign copyright, and rejected Ucorp's argument that in equity this was "as good as an assignment". While the customer might become the beneficial owner, this would not deprive the legal owner from the right to sue for infringement (although any recovery might be held on trust for the beneficial owner).

As a result of the litigation, Acohs also had executed "deeds of rectification" with some of those customers, with a view to undoing the effect of those purported assignments and replacing the relevant provision with a more limited assignment provision. His Honour found that those amendments were effective only in respect of those customers whose original agreements contained a promise to assign; in the third case, the copyright was assigned upon creation and the deed of rectification did not purport to re-assign that copyright.

The case contains a number of valuable lessons for those who seek to protect an interest in materials and information that are to some extent generated or stored by computer. First, one must scrutinise the circumstances in which the purported copyright work comes into existence, and consider carefully the "work" in respect of which ownership will be claimed. Second, one must consider how best to protect that material, particularly where use of the information or material is mandated by legislation; copyright notices and assignment provisions may not achieve their intended goals. Finally, care needs to be taken in enforcing copyright to ensure that the definition and ownership of the work in question can be clearly ascertained.

CSL Limited v Novo Nordisk Pharmaceuticals Pty Ltd [2010] FCA 671 (28 June 2010)

Patents – amendment application – whether application gives rise to a waiver of legal professional privilege

The applicants, CSL and Monash University, are the proprietors of an invention for a stabilised growth hormone and a method of preparation thereof. They have initiated proceedings against two Novo Nordisk companies for patent infringement. The respondents seek revocation in those proceedings.

The applicants have applied for a direction that the patent be amended pursuant to s 105 of the *Patents Act 1990*. Jessup J observed that this appears to have been done at least substantially to improve the applicants' ability to resist the revocation claim.
The applicants were ordered by consent to give discovery relevant to the amendment application. In the present case, the respondents challenged the sufficiency of that discovery. In particular, the respondents sought full discovery of certain discovered documents that had been redacted on the basis of legal professional privilege.

The principles applicable to the Court's discretion to allow an amendment include those set out in the *Smith Kline and French Laboratories* case. That decision suggests (among other things) that the patentee bears the onus of convincing the Court to exercise its discretion, and must make full disclosure of all relevant matters. Further, a patentee who seeks to obtain an unfair advantage from a patent (for example, by threatening an alleged infringer with his unamended patent after he knows or should have known of the need to amend) will not be allowed to amend.

On this basis, the respondents argued that the documents sought were relevant if "they identified the point in time at which the applicants knew, or should have known, that the patent in suit should be amended". The timing of the applicants' knowledge of facts was likely to be a controversial matter at trial. Of note, the respondents argued that in respect of the documents over which a claim of privilege had been made, that privilege had been waived, either by way of "issue waiver" or "disclosure waiver".

Issue waiver arises where a party relies on a cause of action, an element of which is the party's state of mind; such a case gives rise to an imputed waiver of privilege in respect of any legal advice that was material to the formation of that state of mind. Jessup J accepted that in light of the principles espoused in *Smith Kline and French Laboratories*, by making their s 105 application, the applicants had put in issue the "existence, timing and content of the applicants' knowledge or appreciation of the necessity, or advisability, of amending the patent in suit”. Accordingly, there was an imputed waiver of legal professional privilege in respect of communications dealing with those matters. That was, however, the extent of the waiver; it did not mean that the whole of the documents in respect of which privilege had been claim were affected by the waiver.

The argument concerning “disclosure waiver” focused on particular references in affidavits filed on behalf of the applicants to the applicants having received legal advice, and some of the substance of what was said at meetings with their legal advisors. The making of those disclosures, in the context of the reasons why they had been made, was said to be inconsistent with the maintenance of the confidentiality that the privilege is intended to protect. Jessup J considered each of the purported disclosures in the context of the applicants’ evidence and concluded that in some (but not all) of the cases that there was indeed a relevant “inconsistency” that gave rise to a waiver of privilege in the referenced communications.

Intellectual Property

Case Notes by Alan Nash and Tom Cordiner

IP CURRENT DEVELOPMENTS – November 2011

By Tom Cordiner and Alan Nash

SOUTH AUSTRALIA
Spotless Group Limited v Blanco Catering Pty Ltd
[2011] FCA 979
(24 August 2011)

Copyright – Confidential Information – use by former employee

In the two years up to 21 October 2009, the second respondent, Paul Reynolds, was employed by one or other of the applicants (**Spotless**) as state operations manager for South Australia and Western Australia for the "Alliance Catering" business of Spotless. That business provides catering to educational bodies and aged care facilities and at that time the South Australian arm of the business generated revenue of over $30M per annum.

At some time during his employment, Mr Reynolds began to plan, or explore the prospect of, a future either in different employment or working on his own behalf. In the course of doing so, between July 2007 and October 2009, Mr Reynolds had dealings with a director of the first respondent, Blanco Catering Pty Ltd (**Blanco Catering**) as follows:

- From about November 2007, Mr Reynolds had assisted in obtaining business for Blanco Catering and in particular assisted that company with a tender for catering at the Adelaide Zoo (the **Zoo project**) in competition with Spotless.
- Mr Reynolds had provided Blanco Catering with information about how Spotless operated including confidential customer and supplier information, proprietary financial models and sensitive financial information concerning Spotless' bid for the Zoo project.
- On 1 July 2009, Mr Reynolds purchased 33.3% of Blanco Catering through a trustee company;

Spotless settled its case against Blanco Catering. It maintained its action against Mr Reynolds for breach of his employment, fiduciary and contractual obligations and breach of Spotless' copyright.

While the law permitted Mr Reynolds to make some preparation for the conduct of a new business in competition with Spotless even whilst still employed by Spotless, such preparations should not have been made in Spotless' time. That obligation did not extend, as Spotless argued, to Mr Reynolds' spare time. However, it was clear that Mr Reynolds had used Spotless' confidential information in that spare time in breach of the various duties owed to Spotless.

Mansfield J found that Mr Reynolds had breached various duties owed to Spotless by the conduct outlined above, in particular by using both the Spotless modelling template and the

Spotless revenue projections to assist Blanco Catering in developing the proposals on various tenders including the Zoo project. However, notwithstanding that, Mansfield J found that Spotless did not lose the Zoo project tender by reason of Blanco Catering using that information but for other reasons unrelated to Mr Reynolds' wrongful conduct.

In particular, Mansfield J rejected Spotless' contention that Mr Reynolds had passed on certain financial rental information regarding the Zoo project, instead finding that the Adelaide Zoo provided enough information to Blanco Catering for it to match Spotless' rental proposal. Accordingly, no award of damages or loss of profits was made in respect of Spotless' claim for loss of the Zoo project. Notwithstanding that finding, his Honour did order general damages for breach of Mr Reynolds' duties in the sum of $100,000 to reflect "the loss of opportunity to secure the Zoo project because the use of the Spotless templates made the task of Mr Reynolds in doing the financial modelling for Blanco Catering for its rental proposal easier and because its revenue projections may have given it some comfort when it decided to match the revised Spotless rental offer, as well as the general considerations relating to the assessment of such damages".

Mr Reynolds is said to have infringed copyright in two financial model templates by using them to create financial models for the Zoo and another project and then emailing those models to Blanco Catering. We assume that the original templates themselves were not emailed to Blanco Catering as, in that case, infringement would have been uncontroversial.

Mr Reynolds disputed that his models constituted reproductions of a substantial part of the two templates, because he added into the two templates significant additional information to distinguish them from the original documents. Mansfield J rejected that argument and would have awarded $35,000 for general damages and what appears to have been $10,000 in additional damages for copyright infringement. However, his Honour made no separate order for damages and additional damages for copyright infringement, in order to avoid duplication with the earlier award.

VICTORIA

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

Wake Forest University Health Sciences v Smith & Nephew Pty Ltd (No 2) **[2011] FCA 1002** **(30 August 2011)**

Patents – method for treating wounds – infringement – validity

This case involved a patent for a medical apparatus and method directed at treating and healing wounds that were unlikely to respond to usual methods of treatment. Wake Forest University Health Sciences was the proprietor of the patent; the second applicant, KCI Medical Australia Pty Ltd (**KCI**), marketed and sold a commercial embodiment of the invention, in essence a wound dressing kit consisting of a foam dressing and adhesive seal designed to be attached to a vacuum pump.

In 2008, Smith & Nephew (**S&N**) began selling a wound dressing kit that, like KCI's product, used negative pressure to promote wound healing. Initially, S&N's kits used a gauze dressing, but a later product included a foam dressing. It was the latter product that was alleged by KCI to infringe the patent in suit. In particular, 11 method claims and three apparatus claims were said to have been infringed. S&N cross-claimed for invalidity on a broad spectrum of grounds, including an assertion that the claims in suit lacked novelty, inventive step, clarity, fair basis and sufficiency.

KCI failed to establish infringement on the part of S&N. As each claim in suit was a combination claim, it was necessary to show that S&N had exploited, or authorised the exploitation of, a method or product that possessed all the essential integers of those claims. In particular, S&N argued that it had not been shown that its kits included "a screen means sufficiently rigid to prevent wound overgrowth" (a phrase the meaning of which was itself a matter of some controversy). Dodds-Streeton J accepted S&N's argument that the "screen rigidity" integer was "nonsensical" as the evidence did not establish that that integer served its stated purpose of preventing "wound overgrowth". In any event, her Honour concluded that it had not been demonstrated that S&N's product possessed that integer.

KCI's claims of indirect infringement and authorisation under ss 117 and 13 respectively of the *Patents Act 1990*, and a claim of joint tortfeasance, also failed, primarily because her Honour was satisfied that S&N's kits were staple commercial products (cf s 117(2)(b)) and S&N's usage instructions were inconsistent with some of the integers in various claims in suit.

Of the various heads of invalidity pursued by S&N in its cross-claim, it succeeded under ss 40(2) and (3) of the Act. There was a lack of sufficiency due to the "meaningless" nature of the screen rigidity integer and the consequent failure of the specification to give the skilled reader enough guidance to achieve the promised result (cf s 40(2)(a)).   Because that integer lacked inherent meaning and was found in all the claims in suit, there was also a failure to define the invention (cf s 40(2)(b), which in her Honour's view otherwise would have been satisfied). Further, the vagueness of and ambiguity in that integer could not be rectified by reference to the specification, because the same deficiencies characterised the discussion of that integer, and as such the claims in suit lacked the clarity demanded of them by s 40(3). Although cold comfort for the applicants, her Honour was not persuaded that the claims were not fairly based.

Her Honour rejected S&N's claims as to lack of novelty and inventive step. Of note, in relation to the latter S&N advanced a "novel" interpretation of s 7(2) of the Act and would in her Honour's words "tend to assimilate the Australian law on obviousness to UK law" (contrary to the divergence identified by the High Court in cases like *Aktiebolaget* and *Lundbeck*). Section 7(2) identifies the test for obviousness by invoking the standard of a person skilled in the relevant art in light of common general knowledge in the patent area before the priority date of the claim in suit, whether that knowledge is considered separately or together with information referred to s 7(3). Section 7(3) refers to items of prior art information (whether individually or in combination) that the skilled person could reasonably have been expected to have "ascertained, understood, regarded as relevant" and (where applicable) combined. S&N submitted however, that the comparator was any "document made publicly available anywhere in the world" and that s 7(3) did not serve to confine the prior art base comparator for the purposes of s 7(2); rather, it expanded the equipment that may be used for the comparison because the "information" referred to in s 7(3) is broader than the prior art base (in that individual items can be combined). Her Honour was not persuaded by that argument, which in her view effectively would render s 7(3) otiose.

QS Holdings Sarl v Paul's Retail Pty Ltd (No 2)
[2011] FCA 1038
(5 September 2011)

Trade Marks and Copyright – form of relief

In *QS Holdings Sarl v Paul's Retail Pty Ltd* [2011] FCA 853, Kenny J gave summary judgment against Paul's Retail, finding that Paul's Retail had infringed registered trade marks and copyright found in various Quicksilver, Billabong and DCShoes branded goods. The parties were ordered to file submissions on the appropriate orders to be made in light of the reasons for that judgment.

Declarations of infringement were made by Kenny J, with her Honour noting that the applicants' proposed declarations satisfied the requite requirements that they "identify the contravening conduct … be precise in its terms, such that a person reading the declaration understands the nature of the contravention and, in broad terms, the conduct constituting the contravention. On the one hand, it is not necessary to put all the relevant findings of fact in the declaration, but, on the other, the gist of the conduct (as found) should be identified."

Paul's Retail objected to the grant of any injunctions and, in particular, the grant of injunctions against future copyright. Kenny J observed that injunctions were conventionally ordered in respect of cases of intellectual property infringement where there was a proven threat of continuing infringement. Her Honour held that injunctions were appropriate because: (a) the respondents had not given undertakings not to infringe; (b) Paul's Retail's conduct continued after the proceeding began and after it had filed a defence stating the conduct had ceased; (c) procedures to prevent sale of counterfeit goods had not in fact worked; (d) the scale of the infringing activity was large (in excess of 19,000 goods); and (e) and the respondents disputed ownership and subsistence of copyright. Indeed, the applicant filed further evidence of infringing conduct after the hearing for, and just prior to the handing down of, summary judgment.

Kenny J also observed that the circumstances in which Nicholas J did not order injunctive relief against the respondents in *Sporte Leisure Pty Ltd v Paul's International Pty Ltd (No 3)* [2010] FCA 1162 did not apply to this case. In particular, Nicholas J held that the infringing conduct of the respondents in that case was caused in no small part by the contractual misconduct of the applicant's own manufacturer and the respondents were unaware of that contractual misconduct.

However, the applicants were not successful in their pursuit of broad injunctions restraining the respondents from infringing their copyright generally as opposed to being confined to the identified acts of infringement. In patent cases, it is relatively common for injunctions to be ordered restraining the infringement of the patent rather than restraining the particular infringing conduct identified by an applicant. However, Kenny J accepted that patent cases are not analogous to trade mark cases in this regard: as Perram J found in *Solahart Industries Pty Ltd v Solar Shop Pty Ltd (No 2)* [2011] FCA 780 at [11]. Her Honour concluded that she would "grant injunctions in terms incorporating the statutory language but substantially designed to guard against the infringing conduct that has been proven."

Coca-Cola Company v Pepsico Inc
[2011] FCA 1069
(15 September 2011)

Trade Marks – discovery re indemnities requested by or provided to third respondent

Coca Cola commenced this proceeding on 14 October 2010, seeking relief including declarations, injunctions and damages against the first respondent, Pepsico Inc, the second respondent, Pepsico Australia Holdings Pty Ltd, and the third respondent, Schweppes Australia Pty Ltd, for infringement of Coca-Cola's registered shape trade marks for its glass and plastic cola containing bottles (the Contour bottle).

Coca Cola asserts the sale of products called “Pepsi” and “Pepsi Max” infringe its registered trade marks. It claims that the first respondent licences Schweppes to manufacture and sell those products in Australia.

Coca Cola sought discovery from the respondents of documents which record or evidence any request by Schweppes for an indemnity in relation to the adoption of the impugned bottle as packaging of a product to be sold in Australia or the sale of the impugned products in Australia and any grant of such an indemnity.

The Respondents essentially agreed to give that discovery subject to it being limited to: (a) requests for or grants of such an indemnity prior to the commencement of the proceeding; and (b) specifically concerning rather than “relating to” the adoption or sale of the impugned bottle.

Rule 20.11 provides that “A party must not apply for an order for discovery unless the making of the order sought will facilitate the just resolution of the proceeding as quickly, inexpensively and efficiently as possible”. Dodds-Streeton J observed that this rule, in turn, reflects the overarching purpose referred to in section 37M of the *Federal Court Act*.

The respondents conceded that their state of mind was, arguably, at least, relevant to whether they had infringed the applicant’s trade marks or were liable for passing off or misleading and deceptive conduct, as recognised in *Australian Woollen Mills*.

Dodds-Streeton J held that, once the relevance of state of mind were conceded, the imposition of a temporal cut-off point was unduly arbitrary and artificial, as a retrospective reference to earlier conduct in a later document could be probative of an earlier state of mind. Further, the sale of the impugned products was ongoing rather than temporally limited.

However, her Honour found that discovery should be limited to those documents specifically concerning (rather than generally relating to) adoption of the packaging and sale of the impugned products. The third respondent may have requested or been provided with generalised indemnities which, on analysis, potentially applied or related to, inter alia, the adoption and sale of the Infringing Bottles.

Metricon Homes Pty Ltd v Vista Design Architects Pty Limited & Ors
[2011] FMCA 788
(22 September 2011)

Copyright – application for transfer of proceeding to Sydney

The respondents sought to transfer these proceedings to the Sydney Registry from the Melbourne Registry. The proceeding concerns Metricon’s claim that Vista has infringed Metricon’s copyright in house plans.

The house in suit was built by Vista in New South Wales and Vista and its likely witnesses are all based in New South Wales. However, Vista has put in issue subsistence and ownership of the copyright. Accordingly, Metricon will be required to call witnesses based in Melbourne to prove that part of its case. While at least one of the respondents would suffer some hardship if the matter was heard in Melbourne, that could be answered in part by providing her evidence by video-link from Sydney. The trial was therefore set down for Melbourne.

Zippo Manufacturing Co v Jaxlawn Pty Ltd
[2011] FCA 1125
(29 September 2011)

Trade Marks – summary judgment – breach of deed of settlement

Zippo owns various registered trade marks for the word “ZIPPO” in respect of smokers’ articles, including cigarette lighters. It also owns a registered trade mark comprising a stylised version of the word “ZIPPO” and a registered shape trade mark in the shape of the well known zippo lighter (the Shape Mark).

Jaxlawn sought to import various goods which were seized by Customs on 21 June 2010. Zippo filed an application against Jaxlawn alleging, inter alia, infringement of the Shape Mark. On 16 November 2010, the parties entered into a deed of settlement by which Jaxlawn agreed to refrain from importing any lighters having the same shape the subject of the Shape Mark. A similar undertaking was given to the Court and the proceedings were discontinued with a right of reinstatement with no order as to costs.

In June 2011, Customs seized a further shipment of counterfeit Zippo lighters allegedly imported by Jaxlawn. Jaxlawn agreed to forfeit the goods. Nevertheless, Zippo sought to reinstate the original proceeding, seeking summary judgment pursuant to r 26.01 of the Federal Court Rules 2011.

Justice Gordon observed that, in order to reinstate the proceeding, it was necessary to find that Jaxlawn’s second importation of lighters was in breach of its agreement not to import lighters “having the shape the subject of [the Shape Mark] or any shape that is substantially identical or deceptively similar to that shape”. Gordon J applied the principles of trade mark infringement to breach of that term of the deed of settlement. Her Honour concluded that the impugned lighters would, when sold, be displayed to show the shape of the lighter acting as a badge of origin and that shape was the same as the Shape Mark.

Gordon J concluded that it was appropriate to reinstate the proceeding because: (a) Jaxlawn had breached the deed of settlement and the undertaking given to the Court; (b) the release given by Zippo was conditional on Jaxlawn complying with the agreement; (c) Zippo retained the right to reinstate the proceeding if Jaxlawn breached any term of the agreement; and (d) the order for dismissal of the proceeding expressly provided a right of reinstatement.

Zippo originally sought summary judgment in respect of both the first and second shipments of goods. However, the claim in respect of the second shipment was abandoned. Gordon J noted that it would have been inappropriate to make any order in respect of the second shipment as it was not the subject of the original pleading against Jaxlawn.

Gordon J found that Jaxlawn had infringed the various trade mark registrations of Zippo and made declarations to that effect. Her Honour noted that it was appropriate to make such declarations because they provide a foundation for the later inquiry into damages and are intended to guard against future infringements, especially where there is a proven threat of further infringing conduct.

Finally, Gordon J considered Zippo’s application for indemnity costs. Her Honour agreed that indemnity costs should be awarded against Jaxlawn in respect of the application for summary judgment and reinstatement but not the substantive proceeding. Jaxlawn was ordered to pay Zippo’s taxed party-party costs of the substantive proceeding.

Ladakh Pty Ltd v Quick Fashion Pty Ltd & Anor
[2011] FMCA 519
(2 September 2011)

Copyright – infringement claim dismissed

Each of the parties is a manufacturer and distributor of women's clothing. Ladakh claimed that it was the copyright owner of a butterfly drawing that it had sent to China to be printed onto fabric, which was used to make women's clothing that Ladakh imported into Australia. Quick Fashion was alleged to have copied that drawing and, through the same process of having that drawing printed on fabric in China which was used to make clothes that were imported into Australia, thereby infringed copyright. In its defence, Quick Fashion claimed to have found fabric with the butterfly drawing in a Chinese fabric market.

Quick Fashion put Ladakh to its proof of demonstrating that the butterfly drawing was an artistic work within the meaning of the *Copyright Act*. It was; it had "lines, shapes and colours and is vaguely representational".

Quick Fashion also asserted that the Ladakh butterfly drawing was not original, but was a copy of a pattern found on Matthew Williamson dresses. Ladakh's designer claimed that this was not the case, and that the butterfly drawing was taken by digitally manipulating a photograph of a butterfly found on the Internet and turning it into a pattern over the course of five or six hours. Riley FM felt that, based on a visual comparison, the Ladakh design was definitely not a copy of the Matthew William butterfly drawing, but did note that the similarities were so great that it was impossible to believe that Ladakh's design was not strongly influenced (whether consciously or not) by it. Nevertheless, applying the reasoning in *Interlego v Croner Trading* (1992) 39 FCR 348 and *IceTV v Nine Network Australia* (2009) 239 CLR 458, her Honour felt that there was sufficient "independent creative or technical and possibly intellectual effort" in Ladakh's creation to conclude that it was original within the meaning of the Act.

Ladakh's case failed on the question of copying. There was no question that Ladakh's design had been copied by *someone*, and printed on the fabric used by Quick Fashion; the question was who did the copying. Ladakh asserted that the onus of proof had shifted in this regard, it having been proved that the work in suit was sufficiently similar to its own and that Quick Fashion had the opportunity to gain access to Ladakh's work. Riley FM accepted Quick Fashion's argument, however, that the authorities relied upon by Ladakh in this regard were distinguishable in that the respondents in those cases acknowledged their authorship of the allegedly infringing works; in the present case Quick Fashion denied authorship. Ultimately, on a review of the evidence, Riley FM concluded that Ladakh failed to discharge its onus of proof, and in event felt that the evidence of Quick Fashion was reasonably plausible and not, as Ladakh asserted, a "concoction of lies".

WESTERN AUSTRALIA

Tom Cordiner & Alan Nash

Australian Mud Company Pty Ltd v Coretell Pty Ltd
[2011] FCAFC 121
(15 September 2011)

Patents – infringement – construction of claims

This appeal centred on the proper construction of the claims of a patent for a mining orientation device for providing an indication of the orientation of a core sample obtained through drilling operations in geological surveys. In particular, the question was whether the word “device” in the claims should be construed to mean a single, unitary assemblage or could also encompass a multiple part assemblage. If the broader interpretation was correct, the respondent would infringe the patent.

The Full Court accepted the trial judge’s view that the former single unitary assemblage construction was correct and there was no infringement.

Claim 1 claims:

> *“An orientation device for providing an indication of the orientation of a core sample relative to a body of material from which the core has been extracted, the orientation device comprising means for determining and storing the orientation of the device at predetermined time intervals relative to a reference time, means for inputting a selected time interval, means for relating the selected time interval to one of the predetermined time intervals and providing an indication of the orientation of the device at the selected time interval.”*

The Full Court explained how the trial judge correctly applied a “purposive construction” rather than a “purely literal construction” to the claims. They observed that his Honour had concluded that the purposive construction did not involve a construction that was at variance with the plain text of the claim themselves. In that regard the Full Court was at pains to point out that:

> *“To give a purposive construction to a patent specification, and in particular its claims, is not to engage in a process of reasoning that extends the patentee’s monopoly to the “ideas” disclosed in the specification. Nor does it extend the patentee’s monopoly to products or processes that the patentee did not, by the claims, define as the invention, even if those products or processes can be seen to perform the same function as the invention or to be based on the patentee’s “ideas”.”*

On the appellant’s construction, the word “device” at one stage meant the whole device (when referring to the three means of which the device is comprised) and at other times (when referring to the “orientation of the device”) meant not the “device” as such, but only a component of the “device” (in the case of the accused apparatus, the down hole component). The Full Court found that approach strained. For example, one might query how could the “device” be potentially made of separate parts if it was to have a single “orientation” to be determined and stored. In contrast, the construction for which the respondents contended gave a consistent meaning to the word “device” throughout the specification as a whole.

Corporations and Securities

Case Note by Roslyn Kaye

Corporation and Securities Update
By Roslyn Kaye

ResCom Lawyers Pty Ltd v Dangerfield [2011] VSC 469

Proceeding for breach of directors' duties – application for leave to commence statutory derivative action

In this proceeding, the director of a company made application for leave of the Court under sections 236 and 237 of the *Corporations Act 2001* to bring a proceeding on behalf of the plaintiff company against two other directors of that company for breaches of their directors' duties. In brief, Justice Ferguson dismissed the application.

The application for leave to bring the statutory derivative action was brought after the writ and statement of claim had been filed with the Court, and as such, the applicant's application was for leave to be granted with retrospective effect. The Court held that it could, if it was to grant leave, grant such leave with retrospective effect.

In this case, the plaintiff company had carried on a business as an incorporated legal practice, and the applicant and two defendants were the directors of that company. The applicant alleged that the two defendants transferred the legal practice away from the plaintiff company without his knowledge or authority and without paying the plaintiff company.

The defendants argued that the following three elements of section 237 of the *Corporations Act 2001* were not satisfied and the applicant should not be granted leave to bring the statutory derivative action: that the applicant was acting in good faith in seeking to bring the proceeding on behalf of the company, that it was in the best interests of the company that the applicant be granted leave, and that there was a serious question to be tried.

Justice Ferguson accepted the defendants' argument that the applicant was not acting in good faith in seeking to bring the proceeding on behalf of the company. Her Honour found that the applicant knew of and acquiesced in the transfer of the plaintiff company's legal practice to a different entity, and further, that the applicant was seeking to benefit himself rather than the company by attempting to use the proceeding to extract payment from the defendants under a veiled threat of litigation against them for alleged breaches of directors' duties.

Her Honour also held that the applicant had failed to show that it was in the best interests of the company that leave be granted for him to bring a statutory derivative action on behalf of the company. In particular, Justice Ferguson held that although the claim which the applicant sought to bring on behalf of the company was a claim for breach of directors' duties, on the facts, what the applicant really sought to do was to seek payment in respect of his claimed interest in his former partnership with the two defendants. Her Honour held that that dispute between the applicant and the two defendants could effectively be resolved through partnership proceedings, which would not need to involve the company.

Finally, Justice Ferguson rejected the applicant's argument that there was a serious question to be tried, finding that there was an "air of unreality" about the applicant's case, given her Honour's finding that the applicant knew that the legal practice was going to be transferred and the real argument was about how much the applicant was going to be paid in respect of such transfer.

Grego v Copeland [2011] VSC 521

Oppression of shareholder – application for leave to appeal from decision of Associate Judge

This was an application for leave to appeal from a decision of an Associate Judge, who had held that three shareholders of a company had conducted the affairs of a company in a manner which was oppressive to a minority shareholder, pursuant to section 232 of the *Corporations Act 2001*. The Associate Judge had ordered that the defendants purchase the plaintiff's shares for $32,142.86, that they procure the release of the plaintiff from a bank guarantee which the plaintiff had previously given for the company, and that they reimburse the plaintiff for an amount that he had paid on a corporate credit card in respect of the company's expenses. Justice Ferguson refused to grant leave to appeal on the basis that the Associate Judge's decision was not affected by error.

The finding of oppressive conduct was based upon a number of different actions alleged against the defendants, which were considered by Justice Ferguson. The following is a summary of the principal grounds of oppressive conduct alleged by the plaintiff.

First, the defendants made a demand that unless the plaintiff injected $160,000 into the company, he would lose his shares and would be removed as a director.

Second, the plaintiff was removed as a director by resolution of the other directors.

Third, the defendants assessed the value of the plaintiff's shares as nil when the plaintiff offered for them to buy him out if they wanted him to leave the company.

Fourth, the defendants incorporated a new company to which they diverted the assets of the company (such as debts owing to it).

Fifth, the defendants refused to make payments on a credit card which was in the plaintiff's name and which he had used in respect of expenses of the company.

Sixth, the defendants characterised payments made to the company as loans rather than as capital payments, which could lead to the conclusion that the plaintiff's shares in the company were worthless.

Justice Ferguson concluded that the cumulative effect of the defendants' conduct over time resulted in oppression, as when looked at objectively, it was unfair to the plaintiff to exclude him from the management of the company without offering to make any payment for his shares. Her Honour also took into consideration the fact that the company was a small company run by a group of friends and it operated on the basis that each of the shareholders would play an active role in the company.

Having held that the Associate Judge's decision regarding the allegations of oppressive conduct was not affected by error, Justice Ferguson then had to consider what was an appropriate date for the valuation of the shares in the company which the defendant's were ordered to purchase from the plaintiff.

The defendants argued that the appropriate date for valuation of the shares was as close as possible to the date when the court proceeding was commenced. It was submitted on behalf of the plaintiff that the appropriate valuation date was earlier, at a point in time when the plaintiff had offered to sell his shares to the defendants at a particular price, and at which time some (but not all) of the alleged oppressive conduct had taken place. The Associate Judge below had accepted the plaintiff's arguments on valuation. Justice Ferguson held that that part of the Associate Judge's decision was not affected by error, as that was a valuation date that "would best do justice between the parties".

Insurance and Professional Negligence

Case Note by Alexandra Golding

MAJOR ENGINEERING PTY LTD v CGU INSURANCE LIMITED
[2011] VSCA 226 (9 August 2011)

Background

1. This claim arose out of the supply by Major Engineering Pty Ltd (**Major**) of two hydraulic cylinders fitted to the keel of the well known racing yacht "Skandia". The cylinders failed whilst Skandia was racing in the 2004 Sydney to Hobart yacht race. The failure of the cylinders caused the yacht to capsize. The crew had to abandon the yacht, which resulted in loss and damage to the owner of the yacht, Timelink Pacific Pty Ltd (**Timelink**).
2. After protracted litigation, Major was successful in defending the claim for damages for breach of contract made against it by Timelink.
3. Timelink's contract with Major required, amongst other things, that the hydraulic cylinders have a working capacity to withstand a compression force of up to 262kN in ocean racing conditions.
4. Ultimately, it was held that Timelink had failed to prove that the cylinders had failed at a static load of not more than 262kN, therefore its claim against Major for breach of contract failed.

Insurance claim

5. Major was the insured under a contract of insurance with CGU Insurance Limited (**CGU**) in respect of certain risks to which it was exposed during the course of its business (**the policy**). The policy indemnified Major in respect of its legal liability to third parties arising out of its business (as defined). That liability was described as "Product Liability" or "Public liability" with both terms being defined in the policy. However, "professional liability" was excluded by exclusion 19.
6. The policy also contained additional cover for certain legal costs incurred by the insured, commonly known as a "costs extension". The costs extension was in the following terms:

   "*Your Legal Costs*

   (a) In the case of:

   (1) Public Liability or Products Liability; or

   (2) A claim of Public Liability or Products Liability being made against you;

   For which indemnity is, or would be, available under this Policy, we will pay Your

Legal Costs.

(b) Your Legal Costs means:

(1) The legal costs and expenses, that You incur with Our written agreement, in defending a claim of Public Liability or Products Liability made against You;

(2) The legal costs and expenses of any claimant claiming against You for Public Liability or Products Liability that You are liable to pay; and

...”

7. CGU refused to indemnify Major for the legal costs it incurred in it successful defence of Timelink’s claim. Major issued proceedings in the Victorian Supreme Court against CGU seeking payment of its legal costs that it had not been able to recover from Timelink pursuant to the costs extension clause in the policy.

8. CGU’s denial of indemnity was upheld at first instance. The trial judge found that exclusions 19(a) and 19 (c) operated to exclude the claim as Major had supplied the wrong cylinders in the context of allegations about the rendering of professional advice or service.

9. Major successfully appealed to the Court of Appeal. The appeal focussed on the application of the costs extension in a situation where the claim against the insured failed and the operation of exclusions 19 (a) and 19 (c) of the policy.

10. Exclusion 19 stated as follows:

“*We will not indemnify You against the following:*

19. Treatment, design and professional risks

Liability caused by or arising out of Your performance or failure to perform the following:

(a) The rendering of professional advice or service;

(b) ...

(c) Making or formulating a design or specification within the domain of the architectural, engineering, scientific, chemical, actuarial, statistical, economic, financial or medical profession.”

11. Bongiorno JA (with whom Hansen JA and Kyrou AJA agreed) considered that the purpose and proper construction of the cost extension were clear. His Honour stated at [25]: “*Its purpose is to provide cover to a policy holder for costs (as defined) in a case where the policyholder has incurred a legal liability, being Public Liability or Products Liability (as defined) and in a case where it has had a claim made against it. In the second case, the claim must be one in respect of which indemnity would be available under the policy it were successful*.”

12. Where the claim has been successfully defended, as was the case here, Major must prove that Timelink’s claim against it, if it had been successful, would have resulted in a liability in respect of which Major would have been entitled to indemnity under the policy.

13. The characterisation of the claim for the purpose of considering the application of exclusion 19 had to be undertaken on the hypothetical basis that the claim had in fact succeeded.

14. The Court of Appeal held that the claim against Major was concerned solely with the supply of hydraulic cylinders which did not meet specification and it was this claim that must be considered in relation to the costs extension.

15. His Honour identified 4 principles which must be considered when interpreting a commercial contract, such as the policy, in order to give it a business like interpretation:

    (1) The description of Major's business in the policy;

    (2) Identification of the risks covered by the policy and therefore, the purpose of the policy;

    (3) A construction of an exclusion clause which favours an insured is to be preferred, that is, any ambiguity must be construed "*contra proferentem*"; and

    (4) The onus of proof or the risk of non-persuasion, with respect to an exclusion clause rests on the insurer.

16. Exclusion 19(a) excludes liability arising out of the rendering of "*professional advice or service"*. The Court of Appeal considered that any liability that might have attached to Major in respect of the failure of the cylinders, had Timelink succeeded in its claim, would have arisen out of its supply of a product which did not meet contractual specifications. The Court of Appeal held that in supplying that product it was not providing a professional service, *"much less professional advice*". The contract which bound Major was a contract to supply a particular product by reference to its manufacturer's name (the Parker Company). Major performed no service other than supply.

17. Exclusion 19(c) excludes liability arising out of design or specification. The Court of Appeal held that CGU had not established that any design by Major had anything to do with its notional liability arising out of the failure of the cylinders. The Court of Appeal held that the discussions between the representatives of Major and Timelink were concerned only with the size and capacity of the cylinders. Timelink's requirements were related to the need for the cylinders to withstand a specific static force. The Court of Appeal stated that "*as Timelink's claim was litigated and decided, the question of design played no part*".

Conclusion

18. Generally, underwriters separate cover for professional risks from other risks, such as public and product liability, due to the differing underwriting considerations posed by the different risks. However, this can and does lead to disputes as to whether the cause of particular damage arises from a professional or other risk. The characterisation of a risk as "professional" may also vary depending upon whether it is contained within an exclusion or primary insuring clause, with the latter potentially having a broader scope.

19. The writer understands CGU has sought special leave to appeal to the High Court from the Court of Appeal's decision.

Insurance and Professional Negligence

Case Note by Clive Madder

***JSM MANAGEMENT PTY LTD v QBE INSURANCE (AUSTRALIA) PTY LTD* [2011] VSC 339**
***MAINSTREAM AQUACULTURE PTY LTD v CALLIDEN INSURANCE LTD* [2011] VSC 286**

The Victorian Supreme Court recently handed down two decisions examining the scope of coverage under certain policies of insurance as to what constitutes 'damage' to property. Justice Osborne's decision in *JSM Management Pty Ltd v QBE Insurance (Australia) Pty Ltd* [2011] VSC 339 ('the JSM Management decision') concerned an industrial special risks (ISR) policy. Justice Croft's decision in *Mainstream Aquaculture Pty Ltd v Calliden Insurance Ltd* [2011] VSC 286 ('the Mainstream decision') concerned coverage under a business interruption policy.

The decisions deal with different subject matter, but each provides a succinct and apposite analysis of the relevant authorities. Each highlights (under different circumstances) the need properly to determine the proximate cause of the damage.

The JSM Management decision

Justice Osborn's decision was as a result of an appeal from the Civil Claims list of VCAT whereupon the Tribunal found that QBE was liable to pay JSM Management damages in respect of damage to a hardstand which was insured under an ISR policy.

JSM Management leased a trucking depot and warehouse distribution centre to Gaffney Logistics ('Gaffneys'). The lease was standard Law Institute of Victoria lease and included a provision that the premises would be kept in the same condition as they were in when leased, 'except for fair wear and tear'. Prior to entering into the lease, JSM Management's representative told Gaffneys that the hardstand had a load bearing of only 40 tonnes, and that it could not use its container forklift (which had a potential weight of 100 tonnes under load) on the hardstand because that would cause it to fail.
Subsequently, Gaffneys continually used the container forklift on the hardstand; the evidence at VCAT was that JSM Management warned Gaffneys' personnel not to do so, but instead of terminating the lease, attempted to negotiate on the basis that the hardstand would be reconstructed on commercial terms. The hardstand was damaged and JSM Management claimed from QBE on the ISR policy.

QBE denied liability on the basis that the hardstand was damaged as a result of two exclusions: wear and tear; and/or that JSM Management had failed to 'take all reasonable precautions to prevent loss, destruction or damage' to the insured property.

'Wear and tear'
In finding in favour of the insured, Justice Osborne held that for the 'wear and tear' exclusion to apply, the damage must have occurred 'either necessarily, or potentially, by ordinary

processes'.[1] His Honour found that 'the continued operation a massively overweight container forklift on the hardstand over a period of approximately eight months, could not be described objectively as "ordinary use"'.[2]

In so doing, his Honour drew guidance from marine insurance policies, and in particular the distinction between 'perils of the sea' (an insured event under marine policies) on the one hand, and 'the ordinary action of the wind and waves' and 'inherent vice' (excluded events under marine insurance policies) on the other. In particular, in *The Xantho*[3] Lord Herschell equated the ordinary action of the wind and waves exclusion to 'wear and tear'.
Whilst Justice Osborne did not refer to the UK Supreme Court's recent decision of *Global Process Systems Inc & Anor v Syaraikat Takaful Malaysia Berhad*[4] (reported on in the May edition of the Commbar news letter) his Honour's decision is broadly consistent with it, insofar as the insurer's liability under an insurance policy where property (whether a hardstand, or indeed cargo or a ship) has been damaged will be triggered by a fortuitous accident (even if not extraordinary), but will not be triggered where there is an absence of any fortuity.

Reasonable precautions
As noted above, JSM Management was aware of Gaffneys' continued use of the forklift on the hardstand. Clause 11 of the ISR policy provided that 'the insured shall take all reasonable precautions to prevent loss, destruction, or damage to the property insured by this Policy'. Such clauses are generally construed extremely narrowly. Justice Osborne referred to *CGU v Lawless*,[5] where Redlich JA stated:

> 'The test is wholly subjective. A failure to take reasonable precautions will occur only where there is a deliberate course of action or inaction which the insured realises exposes him to the risk of someone being injured by the danger which has been recognised. Hence the phrase "a deliberate decision to court the danger".[6]

Thus the exclusion clause is consistent with the general proposition that an insurer will not be liable for the deliberate acts of its insured, but does not go much further, if at all.

The insurer argued that, whilst a narrow interpretation is appropriate for a liability policy, a different approach was warranted for a policy in respect of property damage. This was because the very commercial purpose of a liability policy providing indemnity against third parties is to insure against one's own negligence (an exclusion of failure to take reasonable care, if construed broadly, would defeat the commercial purpose of the policy). In contrast, there is no such commercial purpose under policy providing indemnity against loss (including property damage). Counsel for the insurer argued that Justice Osborne should decline to follow *Legal and General Insurance Australia Ltd v Eather*[7]('*Legal and General*').

In *Legal and General* an insured claimed under a policy of property insurance for jewellery that was stolen from the back seat of his car. The NSW Court of Appeal held that there should be no difference in the application of the 'reasonable precautions' exclusion under a policy of property insurance from a liability policy. One reason given in that decision was that exclusions should be interpreted uniformly notwithstanding the type of policy. Further, the policy in question had composite cover; the exclusion should not have a different meaning dependent upon the type of claim made. Justice Osborne considered that he should apply the reasoning in *Legal and*

[1] [2011] VSC 339 at [39]
[2] [2011] VSC 339 at [45]
[3] *Thomas Wilson Sons & Co v Zantho (Cargo Owners)* [1887] 12 AC 503
[4] *Global Process Systems Inc & Anor v Syaraikat Takaful Malaysia Berhad* [2011] 1 Lloyds Rep 560
[5] *CGU v Lawless* [2008] VSCA 38
[6] *CGU v Lawless* [2008] VSCA 38 at [17]
[7] *Legal and General Insurance Australia Ltd v Eather* (1986) 6 NSWLR 390

General.
Further, and perhaps more persuasively, his Honour stated:

> 'Furthermore, if the reasonable precautions condition was interpreted as imposing a duty upon the insured to avoid damage to the property by perceiving such risks as would be foreseeable by reasonable care, and taking such care as would be preventable by reasonable action, such a requirement would be repugnant to the commercial purpose of a special risks policy. [...] The owner was entitled to take out insurance to protect itself against damage to property stemming from its own acts or defaults even if they involved a want of reasonable care when analysed with hindsight.'[8]

Nevertheless:

> 'On the face of the Tribunal's findings there was at least from February 2008 a deliberate course of inaction which the insured realised would result in continuing damage to the property, while negotiations were directed not to the cessation of that damage but to the potential commercial redevelopment of the hardstand'.[9]

Because only the Tribunal has jurisdiction to determine facts, his Honour remitted the matter to the VCAT member to determine whether JSM Management's conduct fell within the exclusion, as interpreted and applied by Redlich JA in *CGU v Lawless* and the NSW Court of Appeal in *Legal and General*.

The Mainstream Decision

In the Mainstream decision, the insured, Mainstream Aquaculture Pty Ltd, was the operator of a fish farm. The policy in question was a business interruption policy. The policy was enlivened only if the insured suffered property damaged which consequently resulted in interruption of interference with its business. The insured had separate insurance to cover damage sustained to its property.
On 28 October 2008, Powercor's substation located on Mainstream's premises was damaged causing an interruption to Mainstream's power supply. Justice Croft relied on the plaintiff's expert evidence as sufficient to show that the fuse 'tripped' because of a power oversupply. The tripping of the fuse ought to have led automatically to a backup generator commencing operation. It did not do so. Mainstream's oxygen pumps failed, its fish stock died, and Mainstream could not continue its business until restoration of an alternative power supply some months later.

The two principal issues in dispute were:

- whether the fuse was relevantly 'damaged'; and
- whether the plaintiff's loss was caused by the failure of the generator and/or the fuse to provide alternative supply was a 'mechanical, electrical or electronic breakdown or breakage', such cause not covered under the policy.
-

Justice Croft referred principally to two decisions in finding that the fuse was damaged. In *Ranicar v Frigmobile Pty Ltd*[10] Green CJ stated that damage to property is:

> ' [...] a physical alteration or change, not necessarily permanent or irreparable which impairs the value or usefulness of the thing said to be damaged'.[11]

In *Switzerland Insurance Australia Ltd v Dundean Distributors Pty Ltd*[12] Phillips JA stated that:

> '"damage" within the meaning of section 5 of the policy occurs of the subject matter [...] is interfered with in such a way as to render it less useful or valuable and in consequence

[8] At [62] – [63]
[9] At [76]
[10] *Ranicar v Frigmobile Pty Ltd* [1983] Tas R 113
[11] *Ranicar v Frigmobile Pty Ltd* [1983] Tas R 113 at p 116
[12] *Switzerland Insurance Australia Ltd v Dundean Distributors Pty Ltd* [1998] 4 VR 692

time and money are required to restore that use of value [...]'[13]

Justice Croft was thus readily able to find that the fuse was damaged within the meaning of the Mainstream's policy. Whilst he found that there was evidence that the fuse was damaged *prior to* the event on 26 October 2008, this was not necessary, as:

> 'a fuse that has ruptured is physically altered; once 'tripped, it can no longer fulfil its protective function, and time (and resources) must be expended to repair and replace it'.[14]

As regards the generator's failure to operate and provide backup power, Justice Croft held that the proximate cause of Mainstream's loss cannot have been the failure of the generator to operate. Rather, the proximate cause was the overloading event which caused the fuse to trip, an insured event. And where there are two competing proximate causes, one covered, and one not expressly excluded, then the insured is entitled to cover.[15] Critically, Mainstream was not obliged under the policy to maintain an alternative source of power, and his Honour considered that it would be illogical if it were penalised for attempting to minimise its risks by having a backup power source.

Finally, his Honour found that the 'tripping' of the fuse cannot have amounted to a 'mechanical, electrical, or electronic breakdown' within the exclusions because the insured event was the power failure which brought about the tripping of the fuse. Otherwise any electrical failure which consequently caused damage to insured property would be excluded, which would be 'out of line with the commercial purpose of the policy'.[16]

Conclusion

Both decisions highlight the need, when running such claims, to consider logically and clearly what the proximate cause of the loss is (with the support of evidence including persuasive expert evidence where necessary).

[13] *Switzerland Insurance Australia Ltd v Dundean Distributors Pty Ltd* [1998] 4 VR 692 at 703
[14] At [40]
[15] At [46], referring to Sheller J in *HIH Casualty & General Insurance Ltd v Waterwell Shipping Inc* (1998) 43 NSWLR 601
[16] At [47]

Construction Law

Case Note by Suzanne Kirton

Owners Corporation PS505245E and Ors v Moresi Builders Pty Ltd (ACN 007 243 692) and Anor (Domestic Building) [2011] VCAT 1630

Significance:

This VCAT decision of Senior Member Riegler provides fresh guidance as to the Tribunal's jurisdiction in respect of domestic building disputes. Section 6 of the *Domestic Building Contracts Act* 1995 excludes from the Act those single trades listed in regulation 6 of the *DBC Regulations* 2007.

A claim was made by an owner to VCAT for a number of defective works, including plumbing works. The respondents were the builder and the plumber's insurer (as the plumber was in liquidation).

The insurer (Second Respondent) brought a strike out application was on the grounds that the tribunal lacked jurisdiction, as plumbing work is one of the trades listed in Reg 6.

The decision:

The Tribunal held:

> 18. In my view, the interpretation placed on Regulation 6 by the Second Respondent is too narrow… such an interpretation would lead to difficulties in the application of the DBC Act. Indeed, a significant part of the work comprising the construction of a home would be excluded from the operation of the DBC Act. Clearly that could not have been the intention of the legislature. In my view such interpretation would not promote the purpose or object underlying the DBC Act; and would be contrary to s.35 (a) of the *Interpretation of Legislation Act* 1984 …

In support of its view, the Tribunal relied on the decisions of *Grey v Pearson* (1857) 10 ER 1216 and *Greenhill Homes v DBT* [1998] VSC 34, and continued:

> 21. In my view, another difficulty with the proposition advanced by Mr Andrew is such an interpretation would, in practice, conflict with sections of the DBC Act. In particular, s.54 of the DBC Act defines what a *domestic building dispute* is. In s.54(1)(a) it defines a *domestic building dispute* to include a dispute or claim arising between a builder and a subcontractor in relation to a domestic building contract or the carrying out of domestic building work.
> 22. If I accepted Mr Andrew's interpretation of Regulation 6, it would mean that the DBC Act would not give the Tribunal jurisdiction to hear and determine a dispute between a

builder and its subcontractor in relation to any of those single trades referred to in Regulation 6. In other words, a builder could not claim against its plumber, electrician, painter, plasterer, tiler, glazer and other trades described under Regulation 6, unless those sub-trades did more than one type of work. That clearly could not have been the intention of Parliament.

In my view, the proper construction of Regulation 6 is that it only applies to a situation where only one of the types of work referred to therein is being carried out. It does not apply to the situation where several of those types of work are being carried on the one project, even if they all operate within their own individual contracts or subcontracts…

Construction Law
LEGISLATIVE DEVELOPMENTS re PROPORTIONATE LIABILITY:

The Standing Committee of Attorneys-General (SCAG) has released a consultation draft of proposed national model proportionate liability laws. The proposed model laws, if adopted, will significantly alter the law in most States and Territories. The main changes for Victoria include:

a) **contracting out will be allowed,** but only where a contract is worth over a certain amount (thresholds of $5 million and $10 million are being considered).

b) **apportioning liability to non parties -**

The proposed model laws provide that in apportioning liability the Court <u>must</u> take into account the responsibility of a notified concurrent wrongdoer, and a concurrent wrongdoer who is a party, and <u>may</u> take into account the responsibility of persons who are not parties or notified concurrent wrongdoers. This will result in a significant change to the law in Victoria, where currently all concurrent wrongdoers must be parties unless they are dead or wound up.

c) **issues arising from settlements -**

To overcome the current difficulties with negotiating and settling claims, the proposed model laws provide that in apportioning responsibility a Court must consider the comparative responsibility of each concurrent wrongdoer who is a party to the proceeding or about whom the claimant has been given information, including any who have settled with the claimant.

d) **proportionate liability will apply to arbitrations**

Submissions are currently being considered.

Case Note by Jonathan Wilkinson

***Western Export Services Inc v Jireh International Pty Ltd* [2011] HCA 45**

Interpretation of contractual terms

Plain terms in a contract cannot be ignored in order to give that term a more commercial operation.

Summary
In brief reasons to be unusually published in the Commonwealth Law Reports, the High Court has refused special leave in an application brought by Western Export. Western Export sought a commercial interpretation of a clause in a Letter of Agreement despite the fact that its meaning was objectively plain.

In its reasons, the Court affirmed the key principle of contractual interpretation set out in *Codelfa Construction Pty Ltd v State Rail Authority of NSW*[17], namely, that a court interpreting a contractual term with a plain and unambiguous meaning cannot ignore that meaning in order to give the term a more commercial and business-like operation.

Facts
The matter concerned a franchise agreement regarding Gloria Jean's Coffee Stores in Australia. Western Export (appellant) was the supplier of Gloria Jean's products from the USA to Jireh International (respondent), the owner and master-franchisee of Gloria Jean's Coffee Stores. Western Export sued Jireh for alleged breaches of a letter of agreement after Jireh interposed a related company as preferred supplier to Gloria Jean's franchises in Australia.

Clause 3 of the Letter of Agreement established Jireh, or an associated entity, as a supplier to Gloria Jean's. For sales to Gloria Jean's stores (in Australia and globally) Western Export was to receive a 5% commission.

Western Export claimed damages for payments which it claimed Jireh should have made pursuant the Letter of Agreement.

At trial, Hammershlag J held for Western Export, giving the words 'an associated entity' a "commercial and business-like operation" according to what a "reasonable person in the position of the parties would have understood."

On appeal to the New South Wales Supreme Court, Macfarlan, Young and Tobias JJA reversed the trial decision, reaching different decisions to the trial judge on the construction and implied

[17] (1982) 149 CLR 337

term issues.

Western Export's application for special leave to appeal to the High Court was refused.

Legal principles

In refusing special leave, the High Court held that the decision of the NSW Court of Appeal was correct. In particular it affirmed the following statement by Mcfarlan JA who wrote the lead judgment:

> "*A Court is not justified in disregarding unambiguous language simply because the contract would have a more commercial and businesslike operation if an interpretation different to that dictated by the language were adopted*."

Notably, Macfarlan JA commented that the judge at first instance appeared "to have acted on the basis that the provision would make more sense from a commercial point of view."
The High Court (Gummow, Heydon, and Bell JJ) referred to the decision of Mason J in *Codelfa* at 352 regarding the admission of evidence of surrounding circumstances:

> "*The true rule is that evidence of surrounding circumstances is admissible to assist in the interpretation of the contract if the language is ambiguous or susceptible of more than one meaning. But it is not admissible to contradict the language of the contract when it has a plain meaning. Generally speaking facts existing when the contract was made will not be receivable as part of the surrounding circumstances as an aid to construction, unless they were known to both parties, although, as we have seen, if the facts are notorious knowledge of them will be presumed*."

The High Court rejected the applicant's submission that Courts ought to reject the requirement that it is essential to identify ambiguity in the language of the contract before having regard to the surrounding circumstances and object of the transaction (relying on *Franklins v Metcash*[18] and *MBF Investments v Nolan*[19]). They considered that acceptance of the applicant's submission would require them to reconsider *Codelfa*, which they refused to do. Accordingly until *Codelfa* is reconsidered, it stands as an authority which lower courts are bound to follow.

[18] *Franklins Pty Ltd v Metcash Trading Ltd* (2009) 76 NSWLR 603
[19] *MBF Investments Pty Ltd v Nolan* [2011] VSCA 114 (20 April 2011)

Construction Law

UPCOMING EVENTS

Building Dispute Practitioners Society

Cocktail Party

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Jeffery Gleeson SC and Nick Pane

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Richard Manly SC

14 November 2011

Arbitration and Alternative Dispute Resolution

Case Note by Daniel Bongiorno

Victoria Reforms Its Arbitration Legislation

This note introduces the main provisions of the *Commercial Arbitration Act 2011* (Vic) (the "State Act"), which came into operation on 17 November 2011. As part of Australia's ongoing overhaul of its arbitration legislation, this Victorian legislation complements the federal *International Arbitration Act 1974* (Cth) (the "Federal Act"). It also largely mirrors legislation recently enacted in other states.[20]

These reforms bring Australia in line with several other jurisdictions by adopting, subject to certain exceptions, the following international instruments:

i. *the UNCITRAL Model Law on International Commercial Arbitration* (the "Model Law");[21] and
ii. *the Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (New York, 1958) (the "New York Convention").

Both regimes support and promote dispute resolution via arbitration. In this way, these recent legislative reforms promote cross-border arbitrations being conducted in Australia, the parties to those disputes knowing that Australian courts will maintain the integrity of arbitral proceedings.

The State Act's Main Provisions

The Paramount Object of the State Act

The "paramount object" of the State Act is to "facilitate the fair and final resolution of commercial disputes" by:[22]

i. "enabling parties to agree about how their commercial disputes are to be resolved"; and
ii. "providing arbitration procedures that enable commercial disputes to be resolved in a cost effective manner, informally and quickly."

This paramount object provides the underlying policy for the remainder of the State Act.

Jurisdiction of the Arbitral Tribunal

[20] See, eg, the *Commercial Arbitration Act 2010* (NSW).
[21] (As adopted by the United Nations Commission on International Trade Law on 21 June 1985 with amendments as adopted by the Commission in 2006).
[22] State Act, s 1AC.

The State Act reinforces two internationally recognized principles concerning an arbitral tribunal's jurisdiction:

i. *Kompetenz-kompetenz*:[23] The arbitral tribunal has jurisdiction to rule on its own jurisdiction.
ii. *Separability of the arbitration agreement*:[24] The validity of the arbitration agreement is treated separately from the substantive agreement. Accordingly, an arbitral tribunal's finding that the substantive agreement is null and void does not rob it of jurisdiction under the separate arbitration agreement (thereby maintaining its jurisdiction to make that very finding).

Procedurally, a party is also prevented from pleading that the arbitral tribunal lacks jurisdiction no later than the submission of the statement of defence.[25]

Otherwise, subject to the parties' agreement, the arbitral tribunal is charged with resolving / determining the dispute between the parties.[26] All these measures reinforce the arbitral tribunal's broad jurisdiction under the Model Law regime.

The Limited Role of State Courts

While the arbitral tribunal is primarily charged with the resolution of the dispute, the Supreme Court[27] has certain confined functions to be exercised upon a party's application.[28] Its main functions are:

i. In the event the process for the appointment of arbitrators falters, the Supreme Court may intervene to rectify the problem;[29]
ii. The Supreme Court may enforce an interim measure ordered by the arbitral tribunal[30] or order an interim measure of its own;[31]
iii. The Supreme Court may assist in the arbitral tribunal's taking of evidence,[32] including by issuing subpoenas requiring persons to attend for examination before the arbitral tribunal;[33]
iv. Subject to certain requirements, including the parties' agreement, the Supreme Court may determine a preliminary point of law;[34]
v. The Supreme Court may supervise the disclosure of confidential information;[35] and
vi. The Supreme Court may set-aside an arbitral award or hear an appeal on a question of law, as described in more detail below.[36]

Recourse against the Award

The State Act provides two mechanisms to impugn an arbitral award rendered in Victoria:

[23] State Act, s 16(1).
[24] State Act, s 16(2) – (3).
[25] State Act, s 16(4).
[26] See, eg, State Act, s 19(2) – (5) and s 27D.
[27] Or, if agreed by the parties, the County Court or Magistrates' Court. See State Act, s 6(2).
[28] State Act, ss 5 and 6.
[29] State Act, ss 11(3) - (4), 13(4) and 14(2).
[30] State Act, s 17H – 17I. With respect to procedural orders, see State Act s 19(6).
[31] State Act, s 17J.
[32] State Act, s 27.
[33] State Act, s 27A – 27B.
[34] State Act, s 27J.
[35] State Act, ss 27H – 27I.
[36] State Act, ss 34 – 34A.

i. *Setting aside the Arbitral Award under the Model Law:* The Supreme Court may set-aside the arbitral award on one of the narrow grounds set-out in the Model Law;[37] and
ii. *Appeal on a question of law:* The parties may opt-in to an arrangement whereby the Supreme Court may hear appeals on a question of law.[38]
iii.

These two mechanisms – which may well overlap in their operation – derive from different historical sources. Like much of the State Act, the first mechanism derives from the Model Law (which in turn has adopted the New York Convention's long-standing grounds for the non-enforcement of arbitral awards). The second mechanism, on the other hand, is an outdated vestige of the now repealed *Commercial Arbitration Act 1984* (Vic). Its inclusion militates against the State Act's paramount object.

Conclusion

While it has long been coming, Victoria's reform of its arbitration legislation is very welcome. Australia requires a more robust system for the resolution of cross-border disputes and this reform indicates the State Government's dedication to this objective.

[37] State Act, s 34. These are also the grounds upon which the Supreme Court will decline to enforce an award of another state or territory. See State Act, ss 35 – 36.
[38] State Act, s 34A.

Public Law

Case Note by Emrys Nekvapil

Momcilovic v R [2011] HCA 34

Vera Momcilovic owned an apartment where drugs were found. She was convicted in the County Court of the offence of trafficking in a drug of dependence under s 71AC *Drugs, Poisons and Controlled Substances Act* 1981 (the **Drugs Act**) – relevantly constituted by having the drugs in "possession for sale". The trial judge directed the jury on the basis that s 5 of the Drugs Act reversed the onus of proof so that, the drugs being found in her apartment, she was taken to possess them unless she could satisfy the court to the contrary.

In the Court of Appeal, it was argued that, by reason of ss 25 and 32 of the Charter, s 5 of the Drugs Act could be interpreted to mean not that she must satisfy the court to the contrary on the balance of probabilities, but only that she must show some evidence to the contrary and the burden would then switch back to the prosecution to establish beyond reasonable doubt that she possessed the drugs. Section 25(1) of the Charter provided for the right to be presumed innocent. Section 32(1) stated that "so far as it is possible to do so consistently with their purpose, all statutory provisions must be interpreted in a way that is compatible with human rights".

The Court of Appeal disagreed, finding that s 5 of the Drugs Act was too clear to be read other than as reversing the onus of proof on the balance of probabilities. But it found that s 5 was a limitation on the right to be presumed innocent, and that this limitation was not demonstrably justifiable within the meaning of s 7(2) of the Charter. Section 7(2) states that "[a] human right may be subject under law only to such reasonable limits as can be demonstrably justified in a free and democratic society based on human dignity, equality and freedom". Because s 5 of the Drugs Act was an unjustifiable limitation, the Court issued the first and only "declaration of inconsistent interpretation" under s 36(2) of the Charter. This did not affect the validity of the law, but was a matter to be considered by Parliament.

The Court of Appeal therefore upheld the conviction.

The High Court granted special leave to appeal. A number of constitutional issues were raised for consideration, in addition to the issues raised in the Court of Appeal. These concerned the validity of ss 7(2), 32(1) and 36(2) of the Charter (under the *Kable* principle), the extent to which these could be "picked up" by a court exercising federal jurisdiction, and whether a declaration of inconsistent interpretation could form the subject matter of an appeal to the High Court. The validity of s 71AC of the Drugs Act was also challenged on the basis of inconsistency (under s 109 of the Constitution) with Part 9.1 of the *Criminal Code* 1995 (Cth).

In a surprising twist, the case was decided in Ms Momcilovic's favour on the basis that s 5 did not apply to s 71AC of the Drugs Act; this possibility was first raised by the High Court during argument.

The following table sets out the split of the judges on each issue before the High Court.

Issue	Yes	No
Could s 5 be construed as imposing an evidential onus?		French CJ; Heydon J; Crennan and Kiefel JJ; Bell J
Does s 5 apply to s 71AC?	Heydon J	French CJ; Gummow J, Hayne J agreeing; Crennan and Kiefel JJ
Even if s 5 applies to s 71AC, was there a misdirection in any event?	Bell J	Heydon J
Is s 71AC, Drugs Act invalid under s 109, Constitution?	Hayne J	French CJ; Gummow J; Heydon J; Crennan and Kiefel JJ; Bell J
Is the whole Charter invalid?	Heydon J	Everyone else
Does s 32 involve s 7	Gummow J, Hayne J agreeing; Heydon; Bell J	French CJ; Crennan and Kiefel JJ
Is s 32 valid?	Gummow J, Hayne J agreeing; (by implication) French CJ, Crennan and Kiefel JJ, and Bell J	Heydon J
Is a s 36(2) declaration part of judicial power?		French CJ, Bell J agreeing; Gummow J, Hayne J agreeing; Heydon J; Crennan and Kiefel JJ
Is a s 36(2) declaration incidental to judicial power?	Crennan and Kiefel JJ	French CJ, Bell J (presumably) agreeing; Gummow J, Hayne J agreeing; Heydon J
Are ss 33, 36 and 37 valid?	French CJ, Bell J agreeing; Crennan and Kiefel	Gummow J, Hayne J agreeing; Heydon J
If they are, can they be severed?	Gummow J, Hayne J agreeing	Heydon J
Were the County Court and Court of Appeal exercising federal jurisdiction?	French CJ; Gummow J, Hayne J agreeing; Crennan and Kiefel JJ	
Could s 36(2) be "picked up" under s 79, Judiciary Act?		French CJ, Bell J (presumably) agreeing; Gummow J, Hayne J agreeing
Is a s 36(2) declaration within s 73 appellate jurisdiction of the High Court?		French CJ, Bell J (presumably) agreeing; Gummow J[39], Hayne J agreeing

[39] Because invalid.

Banking and Finance

Case Note by Benjamin Jellis

National Australia Bank & Ors v Horne & Vrsecky [2011] VSCA 280

In a recent decision, the Victorian Court of Appeal considered the scope of the general power in s 447A of the *Corporations Act* to make orders affecting the operation of the corporate administration provisions in Part 5.3A.

The Court took an expansive view of the power, holding that it could be exercised so as to make valid, acts that would be otherwise invalid under Part 5.3A. The Court subsequently ordered that a chargees' defective appointment of an administrator pursuant to s 436C, should be treated as if it were validly made.

Material facts

Messrs Horne and Vrsecky ("the Administrators") had been appointed joint and several administrators of a company known as Australian Property Custodian Holdings Ltd ("the Company"). The Company was part of a larger corporate group, known as the Prime Group.

The appointment was made by a chargee, who held a registered charge over all of the assets and undertakings of the Company (excluding a cash deposit of $5 million held with the National Australia Bank). That same day, directors of the other companies in the Prime Group appointed the Administrators to each of these other companies.

Shortly after, Capital Finance Australia Ltd assigned to the NAB a debt of $6.5 million, being an amount owing under loan facilities that Capital Finance Australia Ltd had provided to the Company.

The Administrators claimed from the NAB an amount including the cash deposit belonging to the Company.

The NAB raised a concern that the Administrators had not been validly appointed.

Decision at first instance

The Administrators made application to the Supreme Court seeking orders including a declaration that their appointment had been validly made, or in the alternative, an order under the general power in s 447A rendering the appointment valid.

This was opposed by the NAB and Capital Finance Australia Ltd who argued that the appointment was invalid. Under s 436C a chargee's power to appoint an administrator to a company is limited to circumstances where the relevant charge concerns the whole or "substantially the whole" of the company's property. It was argued that this requirement was not satisfied, as here the relevant charge involved only 68% of the assets of the Company.

The trial judge agreed that the appointment was not validly made as the requirement of a substantiality had not been made out. He made an order, however, rendering the appointment valid pursuant to the general power in s 447A.

This order was appealed.

Decision of the Court of Appeal

The Court of Appeal held that the trial judge had correctly found the purported appointment under s 436C to be defective.

It further held that that the general power in s 447A could be used to render valid, what would otherwise have been invalid under Part 5.3A. It found, however, that an error of fact had vitiated the discretion of the trial judge in making the order below. The Court was invited by the Administrators to make a similar order in its own discretion.

Of significance to this discretion was the retrospective effect of an order under s 447A and the potential for interference with accrued rights. The Court referred to the decision of the High Court in *Australasian Memory Pty Ltd v Brien* (2000) 200 CLR 270 where a distinction was drawn between steps taken that were predicated upon the termination of an administration (other than by entering a deed of company arrangement or going into liquidation) and steps taken that were predicated upon a company having validly entered a deed of company arrangement or having gone into liquidation. The High Court said that in the latter case there would be no necessary inconsistency between an order with retrospective effect under Part 5.3A and any rights that may have accrued in the intervening period. The Court of Appeal found that similar considerations applied to the defective appointment of the Administrators to the Company.

The Court of Appeal also relied on the fact that administrators had been appointed to each of the other companies in the Prime Group on the same day.

The Court in its discretion ordered that for the purposes of Part 5.3A, the appointment was to be treated as if it was validly made.