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COMMERCIAL LITIGATION

Three critical questions for managing commercial litigation — Part 3

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This article explores three critical questions which inhouse counsel should ask litigators repeatedly during the course of commercial litigation.

- What are the real issues in this case?
- What will the result be after all the costs have been paid?
- What is the settlement strategy?

The first question was addressed in Part 1 ((2003) 6(10) IHC 109) and the second question was addressed in Part 2 ((2003) 7(1) IHC 1).

The questions are discussed by reference to the example of a plaintiff company. The company has received advice from an engineering firm that an industrial process will be profitable if used in its business. The engineering firm is subsequently retained to install the process. The company installs the process at great expense and it transpires that the process is unsuitable and unprofitable. The company claims that the advice to install the process was negligent and sues the engineering firm.

Third question — what is the settlement strategy?

For inhouse counsel, knowing what the result may be after all the costs have been paid begs the question, 'Why can't we get that result today?'.

Out of 20 court cases commenced, around 19 settle. Some would say that these statistics suggest that 95 per cent of the effort in a court case should be directed at settlement.

For a plaintiff, developing a settlement strategy should go hand in hand with the decision of whether to commence litigation. For a defendant, developing a settlement strategy should begin when the writ is served and be well advanced before the defence is filed.

Developing a settlement strategy involves identifying and taking account of the goals of the parties. In many cases a party may see litigation as a means to a particular commercial end. An example is litigation between a predator and a target in the course of a takeover.

In the case under consideration in this article, the goals of the plaintiff and the defendant are clear but the parties have failed to resolve their differences without litigation. The plaintiff company now looks to litigation to achieve its goal of full compensation for the losses it suffered by relying on the allegedly negligent advice of the defendant engineering firm. The defendant will not pay. It also sees the litigation as an opportunity to clear its name.

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The arithmetical analysis (set out in Part 2 of this article) demonstrates that full compensation is out of the question for the plaintiff. Equally, it is out of the question for the defendant to avoid making some payment, if only for legal costs.

When the arithmetical analysis is combined with an analysis of the real issues (set out in Part 1) the result may be to call into question the good sense of suing at all. A finding of contributory negligence cuts deeply into the plaintiff's potential profit from the litigation. There also remains a real chance that the plaintiff will fail altogether.

On the other hand, the defendant needs to recognise that its best result is a loss and its worst result is a major loss.

Both parties must balance their best possible results from the litigation against what they must risk in order to achieve that result. For the case to run its course and one side or the other to win outright:

- the plaintiff must risk losing $3 million in the hope of gaining $4 million; and
- the defendant must risk losing $8 million in the hoping of capping its loss at $1 million.

Neither party may be prepared to roll these financial dice.

The analysis at this stage goes beyond arithmetic as the parties may have special reasons to settle or to fight on.

Commonly, the cost of the litigation in executive time thrown away and in disruption to business becomes a strong incentive to settle. Parties find it a distraction to devote their energies to rehashing mistakes of the past when they could be looking forward to new opportunities. These considerations should cause expectations of settlement to moderate.

Sometimes, parties may have good reasons to fight on. In our example the principal of the engineering firm sees the litigation as an opportunity to clear the firm's name. This may cause the principal to continue the case even though the financial justification for doing so is doubtful.

Reputations and personalities may also come into play. In example 2 (where the engineer's advice was based on the company's incorrect data) and example 4 (where the company director was also an engineer) it is contemplated that a director of the plaintiff company was the real cause of its loss. Does the plaintiff really want to expose the director to the perils of cross-examination? That may depend on the assessment of the director's likely performance in the witness box. That assessment can only be made when the real issues have been identified and a proof of the director's evidence has been obtained.

The director may feel wronged by the suggestion that he or she was at fault and see giving evidence as the road to vindication. Cooler heads in the company may see this as disaster looming.

If the dispute comes down to a contest between the director of the plaintiff and the principal of the defendant, the settlement strategy may need to take account of the possibility that the pride of these individuals may stand in the way of settlement.

These human factors can assume great importance.

Once again, the importance of early preparation is highlighted. If there is a weakness in the case it is far better to recognise and acknowledge that fact before litigation commences. If the case proceeds despite the weakness, the party with the weakness can take account of that weakness in formulating both the real issues and the settlement strategy.

The settlement strategy will draw on the full range of alternative dispute resolution procedures and take account of the information gleaned from all the earlier analysis.

If the dispute looms as a personality clash between the director of the company and the principal of the engineering firm, responsibility for resolving the dispute can be given to other executives who were not previously involved in the dispute.

If the question is purely one of engineering standards, as in example 3 (where the engineering process failed due to an unforeseen local problem), progress may be made by a conference with the experts on both sides.

If the engineering firm sees the contributory negligence defence as its main hope it will want to consider making a payment into court. Such a payment will put the plaintiff under pressure as to costs. If the plaintiff recovers a verdict which is less than the payment in, it will have to pay the defendant's costs after the payment in.

The payment in removes some of the pressure created by the possibility of an adverse costs order from the defendant to the plaintiff. Again, the effect of this strategy is greater the earlier the money is paid.

Implications for inhouse counsel

The three questions explored in this article should be asked and answered at the outset of litigation, and the answers should be reviewed regularly as the case unfolds. The reporting process should require the litigator to report how new developments affect the answers to the three questions.

By insisting that throughout the litigation the litigator:

- identifies the real issues;
- predicts the result after all the costs have been paid; and
- formulates a continually responsive settlement strategy,

inhouse counsel will be able to keep themselves fully informed of the possibilities, risks and opportunities of the litigation.

The process should repeatedly prompt inhouse counsel to address the question constantly confronting a litigant — is it better for me to settle now or to push on to a hearing? ●

Richard Travers, Litigation Lawyer and Managing Director, Altior Pty Ltd (litigation strategist).

CORPORATE GOVERNANCE

CLERP 9 — a summary

Dennis Nettlefold and **William Khong**
HALL & WILCOX LAWYERS

The collapses of OneTel and HIH in Australia, and other notable corporate collapses like Enron in the US, are still fresh in our minds. These collapses revealed weaknesses in the governance of corporate Australia, leaving the Government with the task of introducing measures which may avoid a repeat of such collapses in the future.

On 8 October 2003, the Government released an exposure draft of the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill 2003 — better known as CLERP 9 — with the aim of enhancing audit regulation and the general corporate disclosure framework of corporate Australia.

The measures in CLERP 9 do not apply to all companies. Table A on p 16 sets out in tabular form the application of the CLERP 9 measures (on the basis of the paragraph numbering below).

A summary of the draft Bill follows.

1. Improving auditor independence involves:
   (a) expanding the role and duties of the Financial Reporting Council to include oversight of the audit standard setting process and monitoring and advising on auditor independence;
   (b) allowing auditors to be incorporated, with auditors having proportionate (not joint and several) liability and the Australian Securities and Investments Commission (ASIC) having the power to impose conditions on the registration of auditors;
   (c) requiring auditors to meet a general standard of independence (including restrictions on certain employment and financial relationships with the audit client), with the auditor being required to make an annual declaration that it has maintained its independence;
   (d) requiring any non-audit services provided by the auditor to be disclosed in the director's report together with a reason why the provision of the services did not impair the auditor's independence; and
   (e) requiring the auditor (or the audit partner in terms of an audit firm or company) to:
      (i) rotate after five years (to take effect two years after CLERP 9 comes into force) and in specific circumstances ASIC may extend the rotation period up to seven years;
      (ii) not to become a director or officer of the audit client for four years after ceasing to be a member of the audit firm or a director of the audit company (the period is reduced to two years if the member or director was not involved with the audit);
      (iii) report to ASIC within seven days of any suspected contravention of the law or any attempt to influence, coerce, manipulate or mislead the auditor; and
      (iv) attend the audit client's annual general meeting and answer shareholders' written questions.
2. Improving enforcement arrangements involves:
   (a) expanding the operational capacity of the Companies Auditors and Liquidators Disciplinary Board;
   (b) reconstituting the Auditing and Assurances Standards Board to develop auditing standards with the force of law;
   (c) establishing the Financial Reporting Panel, its role being to resolve disputes with ASIC concerning the application of accounting standards;
   (d) protecting officers, employees and subcontractors who report suspected breaches by the company of the *Corporations*

Table A

Paragraph	Small proprietary company[1]	Large proprietary company	Public company	Listed company	Listed registered scheme
1(a)	✓	✓	✓	✓	✓
1(b)	✓	✓	✓	✓	✓
1(c)	✓	✓	✓	✓	✓
1(d)	✗	✗	✗	✓	✗
1(e)(i)	✗	✗	✗	✓	✓
1(e)(ii)	✗	✓	✓	✓	✓
1(e)(iii)	✓	✓	✓	✓	✓
1(e)(iv)	✗	✗	✗	✓	✗
2(a) – (e)	✓	✓	✓	✓	✓
3(a)	✓	✓	✓	✓	✓
3(b)	✗	✗	✗	✓	✓
3(c)	✗	✗	✗	✓	✗
3(d)	✗	✗	✗	✓	✗
3(e)	✗	✗	✗	✓	✗
3(f)	✓	✓	✓	✓	✓
3(g)	✓	✓	✓	✓	✓
4(a)	✓	✓	✓	✓	✓
4(b)	✗	✗	✗	✓	✓
4(c)	✗	✗	✗	✓	✓
5	✓	✓	✓	✓	✓

1. Small proprietary companies do not have to prepare a financial report and a directors' report unless directed to do so by their shareholders or ASIC.

Act 2001 (Cth) to ASIC (whistleblower protection); and

(e) allowing ASIC to apply to the courts to extend a director's disqualification period by an additional 15 years.

3. Improving disclosure to shareholders and encouraging shareholder activism involves requireing that:

(a) if, in complying with the accounting standards, the company provides additional information in its financial statements to give a true and fair view, the directors set out the reasons why the additional information is needed and the auditor must form an opinion on the additional information;

(b) the CEO and CFO declare that the financial statements were prepared in accordance with the *Corporations Act* and accounting standards and that they present a true and fair view;

(c) the directors' report provides information on operations, financial position, business strategies and future prospects of the company;

(d) the remuneration of each director, the top five highest remunerated executives of the company and the top five highest remunerated executives of any consolidated group be included in the directors' report;

(e) shareholders be given a reasonable opportunity to question the company's remuneration report at the annual general meeting and to vote on the resolution to adopt the remuneration report — however, the vote on the resolution does not bind the directors (that is, a 'non-binding' vote);

(f) shareholder approval be obtained for the making of certain termination payments (which did not require approval previously) if the termination payment exceeds the amount calculated in accordance with the formula in s 200G(3) of the *Corporations Act;* and

(g) allowing notices of meetings to be sent to shareholders by email or any other electronic means and for shareholders to appoint a proxy by electronic means.

4. Improving enforcement of continuous disclosure involves:
   (a) increasing the maximum civil penalty (including for a contravention of continuous disclosure provisions) from $200,000 to $1 million for a body corporate and to $200,000 for an individual;
   (b) making any individual who is involved in a company's contravention of the continuous disclosure regime subject to civil penalties; and
   (c) allowing ASIC to issue infringement notices for contravention of the continuous disclosure regime with penalties of $33,000, $66,000 or $100,000 applying (depending on the market capitalisation of the company).
5. There is an obligation on a financial services licensee to manage conflicts of interest.

The Government is currently seeking comment from the public on the proposed measures, which must be submitted by 10 November 2003. The Labor Opposition has already indicated it wishes to introduce even more stringent controls on corporate Australia. It is therefore possible that there will be further changes in the near future.

Clearly, it is still extremely important for all directors (from small proprietary companies to listed entities) to keep a close eye on future developments. ●

Dennis Nettlefold, Partner and William Khong, Solicitor, Hall & Wilcox Lawyers.

INTELLECTUAL PROPERTY

Make sure your IP keeps pace with your business

Samantha Christie
DEAKIN UNIVERSITY

This article provides some practical tips on protecting intellectual property for companies looking to update and relaunch key brands.

The marketing director (MD) of Airlie Springs is reviewing sales figures and market research for the company's branded products. The market research indicates strong recognition and equity in one key brand but consumers are increasingly attracted to new competitor products. The MD decides to recapture lost market share by updating and relaunching the key brand with a fresher, more modern look. The MD briefs the design, production, marketing and sales teams and within months of positive focus group testing the re-launched product is showing strong sales performance.

A strategy such as the one outlined has the potential to raise many intellectual property issues including trademarks, designs and copyright. In order to protect Airlie Springs' intellectual property with the underlying investment of time, resources and expenditure, the MD needs to involve the intellectual property specialists at the research and planning stage.

Trade mark issues

The intellectual property specialists need to conduct searches to make sure that the newly updated brand will not infringe any third party rights, something which could easily happen with the use of new trade marks, logos and packaging. If the updated branding and packaging does infringe another company's rights, Airlie Springs could be faced with the threat of an injunction and be forced to remove all its fast selling product from the market as well as change advertising material, the branding and/or 'get up' of the product packaging or labelling.

The intellectual property specialists also need to review Airlie Springs' registered trade mark protection. It is important to ensure that the updated branding is protected before the product launch to help prevent another company using Airlie Springs' new and successful trade marks. If the modernised branding differs sufficiently from the 'old' brand and/or is used in relation to expanded product or service offerings, then fresh trade mark applications should be considered. It is also a good idea to make sure the old brand is still required and, if it is, ensure it will not be vulnerable to removal from the Trade Marks Register due to lack of use. Trade mark law is underpinned by a 'use it or lose it' philosophy. In most cases, if five years have passed since a registered trade mark was applied for, and the trade mark is not genuinely used in a commercial way for a continuous period of three years, an application can be made to deregister it.

Design issues

If the product or packaging design has also been freshened up for the relaunch, Airlie Springs' registered design protection should be reviewed. Design registration generally protects two or three dimensional visible, striking or distinctive features of shape, configuration, pattern or ornamentation applicable to an article. If the relaunched product or packaging design is new or original, then fresh applications for design registration should be considered.

As with trade marks, the MD should also ensure at the research and planning stage that the freshened up product or packaging design will not infringe any third party design rights so as to avoid potential threats of an injunction and possible product recall.

Copyright issues

Airlie Springs' relaunched product is so successful that it is stealing a march on competitors. It has a catchy new name, fancy coloured packaging and, as part of a new promotion, an insert that sets out in table form all the Australian Football League (AFL) grand finalists since the start of the competition. The competitor intelligence team learns that a competing

product substantially copying Airlie Springs' new product packaging and promotional AFL insert has been launched onto the market. The company makes an urgent application to the court for an injunction based on passing off and breach of the *Trade Practices Act 1974* (Cth) in relation to the similar branding and get-up, and for copyright infringement of the special promotional AFL item. However, the MD discovers that it was the third party graphic designers in conjunction with the AFL, rather than Airlie Springs' design department, who prepared the AFL promotional insert and there has been no copyright assignment or exclusive licence granted to Airlie Springs.

The Airlie Springs board is not impressed to learn that Airlie Springs does not actually own or have an exclusive licence for the copyright in the AFL promotional insert for its stellar sales product. The MD approaches the graphic designers to get an assignment but finds that the contact there is away on holidays and the necessary paperwork cannot be finalised in time for the urgent application to court.

In the post-injunction debrief the board decides to commit part of Airlie Springs' marketing budget to a legal compliance program to ensure that all company intellectual property is properly protected. This will ensure that the company has the full armoury of legal options if it is again faced with a similar situation.

Conclusion

Before developing any new branding, product or service offerings, it is worthwhile to invest some time to make sure the intellectual property underlying the preferred option is appropriately protected and keeps pace with your business. Involving intellectual property specialists early in the research and planning stage can save time, money and angst down the track, will ensure that product revenue streams are based on solid intellectual property foundations and will prevent your competitors ripping off your top selling products. ●

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This is an edited version of the article which first appeared in Allens Arthur Robinson's Intellectual Property Bulletin, August 2003, and is reproduced with permission.

TRADE PRACTICES

Goggomobil driving out imitation advertisements

Mae Gan
FREEHILLS

Has your company ever had a unique marketing idea, spent substantial money on developing it, then faced the constant problem of preventing rivals from copying that idea? In the commercial world where competitors strive to make the biggest impact on consumers, the tendency to 'jump on board' a good marketing concept means that innovators are constantly seeking legal avenues for protecting their ideas.

One form of protection is copyright but its limitation is that it generally protects the *expression* of ideas but not the ideas themselves. However the recent case of *Telstra Corp Ltd v Royal & Sun Alliance Insurance Australia Ltd* [2003] FCA 786 (1 August 2003) BC200304197 (concerning the 'Goggomobil' advertisements) highlights stronger avenues for protecting marketing ideas under the *Trade Practices Act 1974* (Cth) (TPA) and passing off.

Goggomobil case

In 1991 Sensis (a Telstra subsidiary) sought to liven up the image of the

Yellow Pages phone directory by developing advertisements in which people could use the directory to solve obscure problems in humorous situations. This resulted in a highly successful advertisement involving 'Mr Goggomobil' (a burly Scotsman played by Tommy Dysart) using the *Yellow Pages* to find a parts retailer for his Goggomobil car. Dysart makes several telephone calls in which he has to repeat and begin spelling the word 'Goggomobil' to various retailers. Dysart's frustration changes to excitement when he finds the required retailer who recognises the Goggomobil and its models such as the Dart.

Subsequently, Shannons (insurers specialising in vintage and classic cars) also used an advertising campaign involving the Goggomobil and Dysart because they would be 'instantly recognisable', and the 'quirky' Goggomobil 'would assist in cutting through the clutter of advertising … as it had … gained considerable exposure through the *Yellow Pages* TV commercial … and would … most likely be remembered by Shannons' target market' [13]. The campaign involved two Shannons television advertisements and four radio advertisements.

The first Shannons television advertisement involved Dysart again playing Mr Goggomobil who makes repeated telephone calls, but this time to find a Goggomobil insurer. He also has to repeat and spell the word Goggomobil, with his frustration changing to excitement when he calls Shannons and they know of the Goggomobil and its Dart model. The Shannons logo is then displayed.

Telstra and Sensis alleged that the first Shannons television advertisement infringed Telstra's copyright in the Goggomobil advertisement. All of the Shannons advertisements were alleged to have 'passed off' Shannons as having an association with the *Yellow Pages* that it did not have and to have contravened s 52 (which prohibits misleading or deceptive conduct), s 53(c) (which prohibits misrepresentations that goods or services have a sponsorship, approval or performance characteristics) and s 53(d) (which prohibits misrepresentations that a corporation has a sponsorship, approval or affiliation) of the TPA.

Court's findings regarding copyright

The Court found that the first Shannons advertisement did not infringe any copyright existing in the Goggomobil advertisement or its script. This was because copyright does not protect an idea or concept but only the form in which the idea is expressed. In this case, the first Shannons advertisement had only copied the ideas of using an unusual car; Dysart, playing a memorable character who uses a telephone to solve a problem; and a humorous slant based on Dysart's pronunciation of Goggomobil and its letters. However the Shannons advertisement had not substantially copied the expression of those ideas as both the advertisements involved different stories (for example, the *Yellow Pages*' advertisement featured Dysart working on a yellow Goggomobil, then in his house talking to his wife and calling retailers, while in contrast the first Shannons advertisement depicted Dysart polishing a green Goggomobil and ringing around for car insurance from a mobile).

Passing off and the TPA

The Court found that the first Shannons advertisement contravened ss 52 and 53(d) of the TPA and was a 'passing off'. This was because Sensis' idea of using Dysart as Mr Goggomobil who solves an unusual problem using a telephone had so much public exposure that the idea had become part of the *Yellow Pages* brand image. The use of this same idea by Shannons in an advertisement reminiscent of the *Yellow Pages* advertisement implied that the Shannons advertisement was associated with the *Yellow Pages* even though the advertisement did not specifically refer to the *Yellow Pages*. Advertising that uses such well known images associated with a brand and that therefore imply a connection with that brand (even though it does not expressly refer to that brand) is known as 'secondary' or 'suggestive' branding.

In contrast to copyright, the suggestive branding principle has led to the protection of ideas despite the different ways that these ideas were expressed. However, there may not be liability if only some, but not all, of the key ideas are copied. As the second Shannons television advertisement and the radio advertisements used Mr Goggomobil and his car but not the same problem solving context, these advertisements did not infringe. This indicates that a character may be copied if the other ideas and contexts that were central in associating that character with a particular brand are not also copied.

… all and not just some of the key ideas associated with a brand may need to be copied to attract liability.

Lessons from the Goggomobil case

The *Goggomobil* case highlights the potential of the TPA and passing off laws to help prevent trade rivals from copying another company's valuable marketing ideas. This case illustrates that the use of different scripts, scenarios and other ways of expressing the same ideas do not necessarily avoid liability. The fact that an advertisement does not use another company's trademark but uses its own logo also need not prevent liability. However, all and not just some of the key ideas associated with a brand may need to be copied to attract liability. Ultimately, the court's decision will depend on a range of factors including the context in which an idea was used, but the TPA and passing off laws may provide protection where such contexts create a misleading impression for consumers. ●

Mae Gan, Solicitor, Freehills.

TRADE PRACTICES

Visy Paper v ACCC — risk of competitor arrangements

Melissa Randall and **Dana Wintermantel**
ALLENS ARTHUR ROBINSON

The recent High Court decision in *Visy* highlights the potential trade practices risks associated with actual or proposed purchase or supply arrangements between companies that are also competitors or potential competitors.

In *Visy Paper Pty Ltd v Australian Competition and Consumer Commission* [2003] HCA 59 (8 October 2003) BC200305828, the majority of the High Court held that a proposed supply agreement between Visy Paper Pty Ltd (Visy) and Northern Pacific Paper Pty Ltd (NPP), which would have prevented NPP from purchasing waste paper products from some of Visy's customers in competition with Visy, breached the *Trade Practices Act 1974* (Cth) (TPA).

Background

The High Court case arose out of an investigation by the Australian Competition and Consumer Commission (ACCC) and subsequent proceedings that were dismissed by the Federal Court (Sackville J) in January 2000 in relation to conduct involving Visy and Amcor Printing Papers Group Ltd. At the same time that the ACCC brought the proceedings against Amcor and Visy, the ACCC also brought separate proceedings against Visy which related to its dealings with NPP.

In November 2000 the trial judge, Sackville J, dismissed the ACCC's second action. However, in August 2001, on appeal, a majority (2-1) of the Full Court of the Federal Court ruled that Visy's conduct breached the TPA. This decision was upheld by the High Court.

Visy and NPP were both in the business of collecting waste paper (including cardboard) which was recycled by Visy to produce paper and cardboard. In this context it is worth noting that waste paper collection can be characterised as providing a 'service' to the person from whom it is collected, particularly in cases where a collector is paid to take it away. It can also be characterised as an 'acquisition of goods', particularly where a collector pays to acquire the waste paper.

In September 1995, Visy and NPP entered into a five year agreement under which NPP agreed to sell to Visy, and Visy to buy from NPP, the whole of NPP's stock of waste paper and cardboard. The agreement did not refer to the sources from which NPP could obtain waste paper. However a dispute arose between Visy and NPP over sources of waste paper which led to negotiations between them. During these negotiations Visy attempted to make an agreement with NPP under which NPP would have been prevented from collecting waste paper from some of Visy's customers (the proposed Visy agreement). In other words, the proposed Visy agreement would have prevented NPP from purchasing waste paper from, and supplying waste collection services to, customers from whom Visy obtained waste paper.

The majority of the High Court held that the proposed Visy agreement breached the TPA.

What it means

The High Court's decision has important implications for companies entering into (or even attempting to enter into) supply agreements with customers who are also competitors where the relevant agreement or proposed agreement has the substantial

and subjective purpose of restricting or preventing a customer from acquiring goods or services from particular persons (as the High Court recently held in the *South Sydney* case (2003) 200 ALR 157). The effect on competition of any such agreement or proposed agreement will not be relevant.

In other words, companies who enter into agreements for the supply or acquisition of goods or services on condition that the customer will not supply goods or services to particular persons must ensure that the supply of goods or services that is the subject of the restriction cannot also be characterised as an acquisition. If it can, and the customer is also a competitor (or even a potential competitor), following the High Court's decision in this case such an agreement will automatically breach the TPA even if it does not substantially lessen competition.

The decision highlights the trade practices risks for companies entering into purchase or supply agreements with customers or suppliers who are also their competitors.

The legal reasoning of the High Court was highly technical in nature. A summary of this reasoning is set out below.

Statutory interpretation

The case dealt with the relationship between ss 45 and 47 of the TPA.

Section 45 prohibits (among other things) the making of a contract, arrangement or understanding (agreement) that contains an 'exclusionary provision' (s 45(2)(a)(i)). An exclusionary provision is an agreement between competitors that has the substantial purpose of restricting, limiting or preventing the supply or acquisition of goods or services from a particular person or class of persons. An exclusionary provision is an automatic breach of the TPA and there is no need to establish that the conduct in question had the purpose, the effect or the likely effect of substantially lessening competition.

Section 47 prohibits the practice of exclusive dealing. In the context of *Visy*, exclusive dealing refers to the acquisition of goods or services on condition that the supplier does not supply goods or services to a third party. Such conduct does not automatically breach the TPA but is subject to the competition test in s 47(10). Even if the exclusive dealing risks substantially lessening competition, a company can notify the ACCC of the exclusive dealing. Notification automatically provides the parties with immunity from trade practices action unless the ACCC determines that the public benefits of the conduct do not outweigh any anti-competitive detriment arising from the conduct.

Section 45(6) of the TPA is an anti-overlap provision. By virtue of this section, conduct that constitutes an exclusionary provision will not automatically breach the TPA if it also constitutes exclusive dealing under s 47. Rather, it will be considered under the competition test in s 47(10) and notification will be available. In *Visy*, the ACCC agreed that the proposed Visy agreement would not result in a substantial lessening of competition but this issue was not considered by the High Court.

In deciding whether the anti-overlap provision should apply, Gleeson CJ and McHugh, Gummow and Hayne JJ looked beyond the provision of the proposed Visy agreement as drafted (which simply prohibited the collection of waste by NPP from Visy's current and potential customers) and examined the practical operation of the provision. The judges emphasised that the drafting adopted by the parties to the agreement was entirely irrelevant (and in many cases there may not even be a written record of the agreement). In the view of Gleeson CJ and McHugh, Gummow and Hayne JJ, the provision prohibited both the acquisition of goods (waste paper) and the supply of services (waste collection). As s 47 did not apply to the first prohibition (acquiring goods), the anti-overlap provision was not triggered for that prohibition and the agreement was held to be in breach of s 45(2).

Kirby J characterised the provisions under consideration as 'a less than perfect example of the drafter's art' [58] and stated that in addition to examining the language used in the provisions the court must also consider the purpose of the relevant statutory provisions. Kirby J expressed the view that the purpose of s 45(6) was to prevent arrangements between suppliers and purchasers that provided for exclusive dealings (which under s 47 are only prohibited if they substantially lessen competition) being caught by s 45(2) which prohibits all exclusionary provisions in arrangements between competitors regardless of their effect on competition. Kirby J found that the exclusionary provisions were part of the relationship between Visy and NPP as competitors and not as supplier and purchaser. ●

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CONTRIBUTIONS

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Copy should preferably be presented as an email with an electronic copy of the submission attached.

Federal legislation update

Pending legislation

Spam Bill 2003

Introduced into the House of Representatives (HR) on 18 September 2003, this Bill prohibits sending commercial emails without the recipient's prior consent and using email harvesting or list generating software for the purpose of sending spam. The law will be enforced by the Australian Communications Authority. Messages sent by government bodies, political parties, religious organisations and charities are exempted. The Bill was received in the Senate on 13 October 2003. The report of the Environment, Communications, Information Technology and the Arts Legislation Committee was presented on 29 October 2003.

Corporate Responsibility and Employment Security Bill 2003

Introduced into the HR on 18 August 2003, this Opposition Bill inserts a new Div 6A into Pt 5.7B of the *Corporations Act 2001*, addressing the liability of a related body corporate for the debts/liabilities of the company. It also amends the *Workplace Relations Act 1996* to extend reinstatement orders to related bodies corporate and address their liability for employee entitlements.

Trade Practices Amendment (Public Liability Insurance) Bill 2003

Introduced into the HR on 18 August 2003, this private member's Bill gives the Australian Competition and Consumer Commission (ACCC) power to deal with any price exploitation arising from changes in the law in relation to public liability.

Workplace Relations Amendment (Unfair Dismissal — Lower Costs, Simpler Procedures) Bill 2003

Introduced into the HR on 18 August 2003, this Opposition Bill simplifies the procedures involved in resolving claims for unfair dismissal.

Age Discrimination Bill 2003

Introduced into the HR on 26 June 2003, the Bill prohibits age discrimination in employment, education and access to goods and services, while exempting legitimate differential treatment in areas such as superannuation, taxation and health. The second reading in the HR was adjourned on 26 June 2003. A report of the Senate Legal and Constitutional Legislation Committee was tabled on 18 September 2003.

Workplace Relations Amendment (Good Faith Bargaining) Bill 2003

Introduced into the HR on 16 June 2003, this private member's Bill aims to ensure that negotiating parties to a proposed agreement take part in negotiations, negotiate in good faith and genuinely try to reach agreement.

Superannuation (Government Co-contribution for Low Income Earners) Bill 2003

Introduced into the HR on 29 May 2003, this Bill establishes arrangements for government funded superannuation co-contributions for eligible low income earners. The HR

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rejected some Senate amendments and returned the Bill to the Senate on 13 October 2003.

Trade Practices Amendment (Personal Injuries and Death) Bill 2003

Introduced into the HR on 27 March 2003, this Bill prevents individuals, and the ACCC in a representative capacity, from bringing actions for damages from personal injury or death resulting from contraventions of Div 1 of Pt V of the *Trade Practices Act 1974* (TPA). The second reading debate in the Senate was continued and adjourned on 15 October 2003.

Trade Practices Legislation Amendment Bill 2003

Introduced into the HR on 27 March 2003, this Bill progressed to second reading on the same day (debate adjourned). It repeals the *Prices Surveillance Act 1983* and inserts a new Pt VIIA into the TPA providing for selective surveillance of the prices of certain goods and services.

Late Payment of Commercial Debts (Interest) Bill 2003

Introduced into the Senate on 6 March 2003, this private member's Bill was referred to the Economics Legislation Committee for report on 16 October 2003. It penalises the late payment of commercial debts by Commonwealth government agencies and large corporations to small business in relation to contracts for the supply of goods and services. The Report of the Economics Legislation Committee was presented on 29 October 2003.

Employee Protection (Employee Entitlements Guarantee) Bill 2003

Introduced into the HR on 3 March 2003, this private member's Bill provides for a scheme to guarantee the payment of wages and other accrued liabilities owed to employees in the event of employer insolvency.

Designs Bill 2002

Introduced into the HR on 11 December 2002, this Bill introduces new designs legislation to replace the *Designs Act 1906*. The Senate Economics Legislation Committee tabled its report on the Bill on 16 June 2003.

Public Interest Disclosure (Protection of Whistleblowers) Bill 2002

Introduced into the HR on 11 December 2002, this private member's Bill progressed to second reading on the same day (debate adjourned). It provides a comprehensive Commonwealth public sector whistleblowing scheme.

Workplace Relations Amendment (Termination of Employment) Bill 2002

Introduced into the HR on 13 November 2002, this Bill extends the federal unfair dismissal system to all employees of constitutional corporations, prevents employees from accessing remedies under State unfair dismissal schemes, and amends the operation of the unfair dismissal system. The Senate's second reading debate was continued and adjourned on 11 August 2003.

Corporations Amendment (Improving Corporate Governance) Bill 2002 [No 2]

This private member's Bill was introduced into the HR on 23 September 2002. An identical Bill was introduced into the Senate and progressed to second reading on the same day. The Bill amends the *Corporations Act 2001* in relation to increased penalties for breaches, protection for whistleblowers, executive remuneration reporting, auditor independence and reporting, disclosure of research reports, access to analyst briefings, and election of directors.

Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002

Introduced into the HR on 27 June 2002, this Bill amends the *Superannuation Guarantee (Administration) Act 1992* to require employers to make superannuation contributions on behalf of employees in compliance with the choice of fund requirements. The Senate Select Committee tabled its report on the Bill on 12 November 2002.

Workplace Relations Amendment (Paid Maternity Leave) Bill 2002

Introduced into the HR on 16 May 2002, this private member's Bill provides for a system of paid maternity leave including a government funded basic maternity payment. The Senate Employment, Workplace Relations and Education Legislation Committee tabled its report on the Bill on 18 August 2002.

Workplace Relations Amendment (Transmission of Business) Bill 2002

Introduced into the HR on 21 March 2002, this Bill empowers the AIRC to order that a certified agreement does not bind a new employer as a result of a transfer of a business, or only binds the new employer to a specified extent. The Bill, along with Senate amendments rejected in the HR, was returned to the Senate on 19 August 2003.

Workplace Relations Amendment (Fair Termination) Bill 2002

Introduced into the HR on 20 February 2002, this Bill excludes certain employees from the termination of employment provisions and restores provisions excluding short term casual employees which had been ruled invalid by the Federal Court in *Hamzy v Tricon Intl Restaurants t/as KFC* [2001] FCA 1589. The Bill passed all stages on 16 September 2003 and is awaiting assent.

Sex Discrimination Amendment (Pregnancy and Work) Bill 2002

Introduced into the HR on 14 February 2002, this Bill amends the *Sex Discrimination Act 1984* to clarify certain provisions regarding discrimination on the grounds of pregnancy, potential pregnancy and breastfeeding. The Bill passed all stages on 7 October 2003 and is awaiting assent. ●

News update

International accounting standards — be prepared

On 21 October 2003, the Australian Securities and Investment Commission (ASIC) and the Financial Reporting Council (FRC) called on all company boards and management to prepare early for the adoption of the standards of the International Accounting Standards Board (IASB) for application in Australia. The new standards are being implemented following the issue of a broad strategic direction by the FRC to the Australian Accounting Standards Board (AASB) in July 2002. The changes mean that companies with financial reporting periods beginning on or after 1 January 2005 will be required to prepare their reports in accordance with AASB standards that have adopted the IASB standards. Australian Accounting Standards will therefore be equivalent to International Financial Reporting Standards. For details see MR 03-332 at <www.asic.gov.au>.

ACCC co-operation arrangement with UK and NZ

On 16 October 2003, the Australian Competition and Consumer Commission (ACCC) entered into a co-operation arrangement with the UK Department of Trade and Industry, the UK Office of Fair Trading and the New Zealand Commerce Commission. The arrangement establishes a framework for notification, co-ordination and co-operation on competition and consumer protection enforcement activities, exchange of information and treatment of confidential information. For details see MR 224/03 <www.accc.gov.au>.

Proposed guidelines for industry codes

On 14 October 2003, the ACCC issued a discussion paper and draft guidelines for developing and endorsing effective industry codes of conduct for public comment. Individuals, industry groups and other interested parties are invited to make submissions by 17 November 2003. The discussion paper and draft guidelines can be downloaded from <www.accc.gov.au>.

New ASIC policy on takeover relief

On 23 September 2003, the Australian Securities and Investments Commission released an expanded policy on takeover relief, Policy Statement 159 Takeovers: Discretionary powers. The policy statement aims to give bidders, targets and holders certainty in complying with the *Corporations Act 2001* (Cth) while maintaining the principles behind takeover regulation. It solves practical problems encountered by bidders and targets during a bid. The policy statement replaces Interim Policy Statement 159 and reflects legislative changes to the *Corporations Act* arising from the CLERP Act and the *Financial Services Reform Act 2001*. Copies of PS 159 and related class orders are available from <www.asic.gov.au>. ●

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