DWFoxTucker Lawyers

DWFT Report

Issue 17

Christmas Edition

Inside This Issue

PAGE 2 | Client Profile: Exelsuper

PAGE 5 | Discretionary Trust Deed Issues

PAGE 8 | When Can You Send Unsolicited Electronic Messages?

PAGE 14 | Trade Mark Use/Copyright and Fair Dealing – AGL v Greenpeace

PAGE 17 | Deeds vs Agreements

PAGE 20 | Is a Trade Mark License a Franchise?

PAGE 26 | Parenting Matters Now Firmly Focused on Child's Best Interests

PAGE 27 | Residential Tenancies Act Amendments Navigating the Impact on Landlords

PAGE 29 | New Reasons to Keep Your Contract Terms Fair

PAGE 32 | Seriously Injured Workers and the Obligation of Mutuality

PAGE 36 | Workplace Criminalisation: Labor Governments Criminalise Workplace Manslaughter and Wage Theft

PAGE 38 | Suits Off Staff Profile: Helene Chryssidis, Director

DW Fox Tucker Lawyers

L14, 100 King William Street, Adelaide, SA 5000

p: +61 8 **8124 1811** e: info@dwft.au

dwfoxtucker.com.au

COMPULSORY ACQUISITION | COMMERCIAL | CORPORATE | DISPUTES | DEFAMATION | FAMILY | INSOLVENCY | TAX HOSPITALITY | IP PROPERTY | BUILDING & CONSTRUCTION | ENERGY | RESOURCES | EMPLOYMENT | SAFETY | WORKERS COMPENSATION | SELF INSURANCE | RISK MANAGEMENT | INSURANCE | WILLS | ESTATE PLANNING

CLIENT PROFILE

Exelsuper

Meet the brains behind the revolution in Self-Managed Super

You may have seen or heard Chris Harris on South Australian media before because he's achieved something quite extraordinary in the world of personal finance. Chris hasn't created a profit-busting commercial behemoth or a brand-new life-changing innovation, but he has turned an incredibly important Australian industry on its head. Australians have more than $820 billion in Self-Managed Superannuation Funds (SMSFs), and for years, Chris has led a revolution of clarity, understanding and control across SMSF investments, empowering the people they serve.

"It's quite a simple vision," Chris explains, "give people back the power over their superannuation, making it easy and straightforward. For too long, the superannuation companies had things all their own way, with little thought given to the input, opinion or convenience of the clients themselves. But our model changed all that by taking the time and effort to explain all the options properly and a hand-on-heart commitment to *truly* independent advice. You make all the decisions, and we do all the work. It really is that simple."

The vehicle for Chris's revolution is Exelsuper, the full-service SMSF provider he started in 2011 on a mission to "shake-up" the industry. The fast, strong growth of Exelsuper to its impressive position today would suggest that Chris has clearly succeeded in that mission, but before exploring the company's present-day success, we ask about the motivation behind starting out in the first place. Are there any personal passions at play here? Was there a eureka or lightbulb moment which kickstarted Chris's quest?

Decluttering the complex. What a super idea.

"It was more of a gradual build-up of frustration on behalf of my clients than any single moment," replies Chris with a serious look. "in 2009, the Government commissioned the Cooper Review into superannuation, which described

SMSF managers as a cottage industry, with most accountants and financial advisors servicing, on average, less than 10 SMSF's each. At that time, Australia had the 3rd largest private pension system in the world, with over 40% of that wealth in Self-Managed Super Funds, yet there were virtually no dedicated specialists serving that community. Even though superannuation is by far the biggest mode of saving in Australia, there was a huge lack of customer-centric information and infrastructure to help everyday Australians manage their super. As a result, SMSF was always referred to as DIY Super. We set about changing that. No More DIY Super! SMSF is, in my opinion, the most flexible and rewarding solution available to higher net worth clients. Our vision was to support those customers with specialist expertise and knowledge, combined with services that take away the DIY work for a simple, understandable and certain fee."

"SMSF was not easy or accessible for the average Australian back then. In fact, I would argue that the accounting and financial planning industries purposely made SMSF an elitist, difficult and expensive solution that most hardworking people put in the 'too hard basket'. This perceived complexity steered most Australians towards the financial trap of traditional superannuation, which suited investment advisors, fund managers, Unions and the accounting profession just fine, thank you very much – because the more complex SMSF appeared to the general public, and the greater the barriers to entry, the more money these finance professionals made."

Chris describes those pre-Exelsuper days as a time of vast disillusionment among SMSF customers, having been let down by their fund managers and financial advisors, stung once too often by hidden unfair fees, and loaded with cynicism about the vested interest tainting advice, from advisors.

"I've always had very open relationships with my financial advisory clients, and time after time, the conversation would turn to their negative Superannuation experiences and associated poor investment results, and lack of control over outcomes, and I'd think to myself: This is not right, this is not fair, I wish there was something I could do to help my clients to escape from the Superannuation rollercoaster."

"And then one day, enough was enough. I reinvented the business from the ground up, and decided to focus… we can't be all things to all people!!! We worked hard to prove ourselves as self-managed super specialists, with the most powerful point of difference possible – Specialist SMSF advice and services, delivered for a simple flat fee, free from any behind-the-scenes vested interests tainting our methods…. It really was a revolution," smiles Chris.

1st class client service - the secret to super growth.

There was clearly a big demand in the Australian SMSF market for a people-centric provider, and Exelsuper set about cultivating it as fast as possible, riding high on the huge dissatisfaction with traditional super funds and massive migration to SMSFs.

Exelsuper had $50 million in funds under advice soon after opening in 2012, and that had tripled to $150 million within just two years. Chris never looked back.

Today, Exelsuper has over $1 billion in funds under advice and employs a team of 18, with no sign of that growth stopping anytime soon. And Chris, now a board-appointed CEO as well as a Specialist SMSF Advisor, puts the key to that success squarely down to the same service values and the same promises to its clients on which the company was founded.

"Put simply, I just refuse to accept that SMSF is a DIY process that is a complex and burdensome experience… Exelsuper exists to take away all that burden and frustration. I fundamentally believe that superannuation funds can be the most valuable of our assets and that poor experiences with super funds can be solved with deep-seated empathy and understanding of those problems and frustrations, and Exelsuper will always work to reinvent ourselves to respond to those we can help and serve," says Chris proudly, "our people and culture are all about making sure you make all the decisions, while we do all the work."

"No more complex fee structures, hourly rates or asset-based fees… just simple understandable fixed fees that give our clients confidence that there will be no nasty surprises. That, combined with our team of specialist SMSF professionals, who hold the highest superannuation qualifications available, is a powerful mix."

As Exelsuper enters its second decade as an SMSF specialist, educating and assisting superannuation investors of all shapes, sizes and ages, we ask Chris if he has any insight or words of advice to share with DW Fox Tucker readers who want to make their superannuation work harder with SMSFs?

"Absolutely," smiles Chris. "The most important thing to remember, for anyone at any stage of life, is that self-managed super is not as difficult or complex as you've been led to believe, especially with the help on hand you can get from specialist providers like Exelsuper. You get access to expertise to help make the right decisions, and then a professional does all the paperwork for you. Growing your wealth is something to enjoy and feel good about getting your teeth into. There's nothing quite like watching the fruits of your well-invested income thrive."

Exelsuper has been a valued client of DW Fox Tucker for some time, so we've seen the success story unfold in front of our very eyes. And we're happy to confirm that using self-managed super to grow your wealth does indeed look like a lot of fun, especially when revolutionaries like Chris and his team are on hand to help show you the way.

FOR MORE INFORMATION ABOUT EXELSUPER:

Phone

1300 558 713

Visit

https://smsf.exelsuper.com.au

INSIGHT | **By John Tucker**

Discretionary Trust Deed Issues

As many members of the generation that discovered discretionary trusts, as the preferred legal arrangements under which to hold investments or conduct a business, now contemplate the use of these arrangements by a subsequent generation, a variety of issues are emerging.

Some of the trust deeds under which these discretionary trusts have been created were drafted 40-50 years ago when such things as the rule against perpetuities, now abolished in South Australia, were important, the taxation of capital gains was confined to rare circumstances, and much else that existed or did not, has changed or arisen.

The rule against perpetuities resulted in deeds restricting the term of a trust to a life in being at its creation, usually close by reference to a member of the British Royal family then living, plus 21 years. Often, this period was time-limited to a particular number of years, usually 80 but occasionally 60. Many of these periods will, for these early days' trusts, terminate during the life of an ensuing generation unless they can be extended or their time limitation removed.

Another consequence of the rule has been for deeds to have commonly been drafted to forbid the vesting, meaning distribution, of any of the trust fund into a trust fund with a limitation period that may expire after that prescribed for the trust seeking to make the distribution. This restriction, where included, will, unless it can be removed, apply to prevent any distribution from an earlier to a later created trust fund.

Of course, there have been many more developments in the law relating to discretionary trusts over the period than this.

One development of significance has been the close examination given by the Courts to the power to amend a Trust Deed. This power, as drafted in earlier deeds, was often restricted to amendments applying to the administrative powers of the trustee, often specifically preventing any alteration to potential beneficial interests, and regularly preventing any alteration to already vested interests. These restrictions are clear in their effect and present difficulties in attempting amendments that may offend them. Other powers of amendment have not been drafted as restrictively. However, they can still present difficulties, such as provisions referring the power of amendment to preceding provisions of the Deed when the provisions sought to be amended are contained in a subsequent schedule to the Deed.

An issue that most powers of amendment have accommodated has been amendments to enable the streaming of capital gains and franked dividends. Consistently, also amendments to authorise the accounting treatment by the trustee of gains as income and relating to notional income amounts. Commonly, early versions of trust deeds adopted, as their means to determine trust income, the outcome of the calculation required for section 95 of the *Income Tax Assessment Act 1936*, a calculation that does not include amounts excluded from that calculation and which, for that reason, can prove unsuitable.

In the context of intergenerational planning there are more issues.

Most, but the earliest, trust deeds define a wide range of beneficiaries. These have been, from early times, split into two groups, respectively called Primary Beneficiaries and General Beneficiaries. These groups ordinarily refer to a named

"… assets may be intended to accrue for the benefit of more than one, but not all, members of a several siblings group, or there may be a single or a group of assets that would be intended for each of the siblings or groups of them. While a simple solution to this issue is to vest the relevant assets, subject to relevant liabilities in one or more selected beneficiaries, this may not be economically feasible ..."

individual, that person's spouse, their lineal descendants, possibly their spouses, companies and trust funds in which any of them have shares or any form of interest and one or more charities. Some encompass wider possibilities, including persons who might later be added.

In many cases, the referenced individuals named in these deeds are the deceased parents of mature aged members of the beneficiary classes. These members may have cooperatively managed the trust assets according to the known precedential wishes of their parents but cannot reasonably expect that level of cooperation to continue through the next generation and more so if these are to be infused with members of a later generation and spouses at one or both of these generations all with different objectives in life.

Frequently, a discretionary trust deed will stipulate what are called "Default Beneficiaries". These are persons who will benefit from income or capital, as the case may be, in the event that the trustee does not exercise a relevant power to select other beneficiaries who will be entitled to take or share in it. These beneficiaries may be individually named or determined by reference to a specified class. Their position and definition are important and may well refer to persons or class members who are deceased or who would no longer be intended to benefit in the way the default beneficiary provision prescribes.

Further, the usual structure of the trust deeds for discretionary trusts included the nomination of an 'Appointor' and the bestowal on that person, these persons or their substitutes, with a discretionary power to appoint a new trustee. This power has generally been seen to be the power to control the trust. Accepting this to be so, the ability to remove or alter this person or power, those able to exercise it or the manner in which it must be exercised, is very significant. To a lesser extent, a power of the trustee to appoint a new or additional trustee and the circumstances when and how it may be exercised are also issues of considerable importance.

Another usual structure of these deeds has been the appointment of a proprietary company, uniquely dedicated to the administration of the trust, as trustee. In all likelihood, this company will have been controlled, through its shareholdings and officers, by the same person or persons nominated as the Appointor of the trust. These shareholdings are held independently of the Trust, so they do not follow any disposition of the trust assets but, to the contrary, their disposition can pass control of the trust subject to the powers of the Appointor.

The role of the trustee company in exercising its powers brings further issues requiring attention. It is trite to say, but nevertheless not be overlooked, that decision-making by the company needs to be made in compliance with its constitution. If, other than a single director company, that is to be by the directors in a meeting, any notice and quorum requirements must be met in compliance with its constitution. If purporting to be made by a single director, the constitution needs to authorise this and any requirements for recording and notifying the decision need to be observed. These obvious requirements can easily be assumed met but later emerge not to have been with difficult consequences resulting.

Another requirement simply assumed can be that all persons within what are colloquially treated as a family group are within the class of beneficiaries of the trust. For example, many of the older trust deeds include a spouse as a beneficiary without extending this to widows, widowers, putative spouses, and domestic partners. Their later inclusion with a view to their benefitting from it, particularly if effected by the widow, widower or other person acting as controller of the trustee, can be controversial. Better this situation be contemplated and provided for during the lifetime of a relevant spouse.

On the other hand, there is scope for reflection on the standard drafting of the very wide classes of beneficiaries in discretionary trust deeds. While the drafting invariably confers an absolute and uncontrolled discretion on the trustee in determining the distribution of income and capital, the Courts have moved to require the trustee to ascertain the persons and bodies within the relevant class and their circumstances as relevant to the exercise of the discretion, to reflect on the structure of the deed particularly as to the position of potentially disgruntled potential beneficiaries, to possibly articulate their reasons to the extent of demonstrating an impartial and genuine consideration of the beneficiaries and their interests. From this perspective, some of the all-inclusive drafting of beneficiary class members may be better confined. This, too, can be advantageous with respect to laws that group a discretionary trust, as an entity, with any person, or entity in which they have an interest, that is within the class of beneficiaries of the trust.

Another common issue is for assets to have been accumulated under a discretionary trust by one generation that would not be intended to be placed under the control of a single intended beneficiary, their family, or all the members of an ensuing generation. These assets may be intended to accrue for the benefit of more than one, but not all, members of a several siblings group, or there may be a single or a group of assets that would be intended for each of the siblings or groups of them. While a simple solution to this issue is to vest the relevant assets, subject to relevant liabilities in one or more selected beneficiaries, this may not be economically feasible where doing so will crystallise accrued capital gains for which there will be an income tax liability that cannot be funded or the interested parties want not to be incurred. Resolution of this issue presents significant challenges, not always able to be achieved simply or inexpensively. Some tax concessions exist that can aid the quest, but the circumstances in which they apply are limited.

Another situation not so much related to the legacy terms of trust deeds as to activity by the trustee is the historical vesting of a share of trust income in a company, creating an entitlement that is not immediately satisfied. In following the Commissioner of Taxation's pronouncement about taxation liabilities asserted as arising from these shares, arrangements may have been created, collateral to but with separate governance to the progenitor trust deed, that will need separate consideration.

Collateral to managing the devolution of trust assets, through the preservation of the trust structure for a new generation of diverse beneficiaries is the integration of estate planning between assets held personally, including those such as shares controlling the trustee of the trust, those of a corporate beneficiary, the exercise of powers within the trust deed for the appointment of an Appointor or Trustee, and the exercise of powers reposited in the trustees and to be exercised by them or it. Trustees are constrained by a doctrine that prevents a trustee empowered with a discretion from "fettering" the exercise of that discretion, for example, by seeking to prescribe in advance its exercise. Against this, views exist that express provisions contained in a trust deed empowering the trustee to act in accordance with external directions, such as in a Will, can overcome the operation of this doctrine.

Of course, the more trusts, including a trust governing a superannuation fund, and perhaps companies as well, the more complicated the planning becomes. That said, they don't become easier to resolve by not being addressed during the lives of those best empowered to deal with them.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

John Tucker
Director
p: +61 8 **8124 1807**
john.tucker@dwft.au

INSIGHT | **By Sandy Donaldson**

When Can You Send Unsolicited Electronic Messages?

This article examines when a business can send cold-call or unsolicited electronic messages. The answer is, broadly, only in very limited circumstances, particularly if the message has a marketing flavour.

Two Acts regulate what can be done, or rather what can not be done:

- The Spam Act (*Spam Act 2003* (Cth)); and
- The Privacy Act (*Privacy Act 2008* (Cth)) and the Australian Privacy Principles (in Schedule 1 of the Privacy Act).

Electronic messages

The starting point when considering spam is whether an *electronic message* is used. That could be a message by email, social media or text. Voice calls on a standard telephone service are not electronic messages (these are considered to be dealt with under the *Do Not Call Register Act 2006* (Cth)).

Fax messages are not considered *commercial electronic messages (Spam Regulations 2004*, Section 6).

Commercial electronic messages

The next consideration is whether the message is a *commercial electronic message*. This is where the marketing flavour comes in. Under Section 6 of the Spam Act, an electronic message is a *commercial electronic message* where:

> *Having regard to:*
>
> *a. the content of the message; and*
>
> *b. the way in which the message is presented; and*
>
> *c. the content that can be located using the links, telephone numbers or contact information (if any) set out in the message;*
>
> *it would be concluded that the purpose, or one of the purposes of the message is:*
>
> *d. to offer to supply goods or services; or*
>
> *e. to advertise or promote goods or services; or*
>
> *f. to advertise or promote a supplier, or prospective supplier, of goods or services;*
>
> …
>
> and lots of other purposes.

This is extremely broad, and even a very "soft-sell" in a message would be likely to render it "*commercial*".

Prohibition of CEMs

A *commercial electronic* message may not be sent (to anyone) if it:

a. has an *Australian link* (as this article is directed to Australian businesses, it will be assumed that there is an Australian link); and

b. it is not a *designated commercial message.*

(Section 16(1)) unless the receiver (*relevant electronic accountholder*) has consented (Section 16(2)).

Consent

Schedule 2 of the Spam Act deals with consent, which can be express or reasonably inferred from business or other relationships (clause 3). That is fairly straightforward. Consent can be withdrawn by 5 business days' notice (clause 6).

Conspicuous publication

Where consent becomes complicated in relation to spam is when an email or other electronic address is "*published*". Clause 4(1) of Schedule 2 says:

1. For the purposes of this Act, the consent of the relevant electronic account holder may not be inferred from the mere fact that the relevant electronic address has been published.

However, there is an exception for *conspicuous publication*, whatever that is (clause 4(2)). Clause 4(2) of the Schedule reads:

2. However, if:
   a. a particular electronic address enables the public, or a section of the public, to send electronic messages to:
      i. a particular employee; or
      ii. a particular director or officer of an organisation; or
      iii. a particular partner in a partnership; or
      iv. a particular holder of a statutory or other office; or
      v. a particular self-employed individual; or
      vi. an individual from time to time holding, occupying or performing the duties of, a particular office or position within the operations of an organisation; or
      vii. an individual, or a group of individuals, from time to time performing a particular function, or fulfilling a particular role, within the operations of an organisation; and
   b. the electronic address has been conspicuously published; and
   c. it would be reasonable to assume that the publication occurred with the agreement of:
      i. if subparagraph (a)(i), (ii), (iii), (iv) or (v) applies—the employee, director, officer, partner, office-holder or self-employed individual concerned; or
      ii. if subparagraph (a)(vi) or (vii) applies—the organisation concerned; and
   d. the publication is not accompanied by:
      i. a statement to the effect that the relevant electronic accountholder does not want to receive unsolicited commercial electronic messages at that electronic address; or
      ii. a statement to similar effect,

   the relevant electronic account holder is taken, for the purposes of this Act, to have consented to the sending of commercial electronic messages to that address, so long as the messages are relevant to:

   e. if subparagraph (a)(i), (ii), (iii), (iv) or (v) applies – the work-related business, functions or duties of the employee, director, officer, partner, office-holder or self-employed individual concerned; or
   f. if subparagraph (a)(vi) applies – the office or position concerned; or
   g. if subparagraph (a)(vii) applies – the function or role concerned.

"Where consent becomes complicated in relation to spam is when an email or other electronic address is "published"."

So, in summary, the effect of this exception is that if a particular email or other electronic address of a particular individual is *conspicuously published* and:

- it is reasonable to assume that the publication is with the consent of the individual; and

- the publication is not accompanied by any statement that the individual does not want to receive unsolicited CEMs,

consent is taken to have been given for messages, but only if relevant to work-related business, or other functions and duties.

What is "conspicuous"?

"*Conspicuous*" is not defined in the Spam Act. There is little guidance available from the regulator, the Australian Communications and Media Authority (**ACMA**). However, Section 4 of the Spam Act defines "*published*" to include:

a. published on the internet; and

b. published to the public or a section of the public.

If an email or other address is published on the internet, but is not readily available, such as on a webpage which is not generally available to the public, like a chatroom or a subscriber webpage, it would not be likely that the publication would be considered to be *conspicuous* or that the account holder for the address consents to receiving *commercial electronic messages*.

Harvested addresses

It is also not possible to use an address that has been obtained by address-harvesting software. The supply, acquisition and use of address-harvesting software and harvested-address lists is expressly prohibited by Sections 20 - 21 of the Spam Act.

Designated commercial messages

As well as the possibility of consent, including inferred consent, to receipt of commercial electronic messages, there is also a carve-out in Section 16(1)(b) for *designated commercial electronic messages*. This is probably a more difficult concept than consent. Schedule 1 of the Spam Act defines what is meant by the expression "*designated commercial electronic message*". There are a number of elements, and it is necessary to look at the definition in detail. Clause 2 of Schedule 1 reads:

2. Factual information

1. For the purposes of this Act, an electronic message is a ***designated commercial electronic message*** if:

a. the message consists of no more than factual information (with or without directly-related comment) and any or all of the following additional information:

i. the name, logo and contact details of the individual or organisation who authorised the sending of the message;

ii. the name and contact details of the author;

iii. if the author is an employee—the name, logo and contact details of the author's employer;

iv. if the author is a partner in a partnership—the name, logo and contact details of the partnership;

v. if the author is a director or officer of an organisation—the name, logo and contact details of the organisation;

vi. if the message is sponsored—the name, logo and contact details of the sponsor;

vii. information required to be included by section 17;

viii. information that would have been required to be included by section 18 if that section had applied to the message; and

b. assuming that none of that additional information had been included in the message, the message would not have been a commercial electronic message; and

c. the message complies with such other condition or conditions (if any) as are specified in the regulations.

Government bodies and educational institutions get special treatment for their messages to be *designated commercial messages*.

"Many firms and organisations provide newsletters and updates of this type which are of benefit to sections of the general business community and it is not intended to prevent this beneficial activity."

Factual information

The first element of the definition of *designated commercial electronic message* is that it must only consist "*of no more than factual information (with or without directly-related comment)*".

Some commentaries limit this concept to solely transactional messages, such as acknowledging an online transaction, confirming a product or service purchase, or advising how to reset a password. This approach, however, is too narrow. It is hard to see how such a merely transactional message (unless accompanied by other matters) could have the purposes with a marketing flavour required by Section 6(1) to be a *commercial electronic message*.

A *designated commercial electronic message* must have the details of the message's sender and other information specified in clause 2(1) of Schedule 1. The addition of this information could be seen to be marketing, but clause 2(b) makes it clear that the message is to be considered without reference to the additional information, so that if the content of the message, on its own, without reference to the additional information would not be taken to be a *commercial electronic message*, then the message as a whole, with the additional information, will be a *designated commercial electronic message*.

What is factual information?

There is no real guidance available from ACMA as to what is "no more than factual information". However, the Explanatory Memorandum to the Bill for the Spam Act does contain some guidance and says that:

> *This provision is designed to ensure that messages which may be seen to have some form of commercial element, but which are primarily aimed at providing factual information are not covered by the rules relating to commercial electronic messages in clauses 16 and 18 of the Bill. Many firms and organisations provide newsletters and updates of this type which are of benefit to sections of the general business community and it is not intended to prevent this beneficial activity.*

Examples given in the Explanatory Memorandum include:

- *An electronic message from a private law firm which includes an information sheet outlining the effects of a particular court decision. At the bottom of (the) sheet the law firm may have the firm name, address, contact details and logo. Of itself this message could be seen to be commercial in nature as ultimately the message is designed in some way to promote the interests of the private law firm. However the messages primary intent is to provide factual information.*

Messages that are not DCEMs

The Explanatory Memorandum also has some interesting examples of messages that would not qualify as *designated commercial electronic messages* because they have some sort of marketing flavour. These examples are:

- *an electronic message which states that television sets are all 20 percent off a major retailer this week with a link to the retailer's website, or the contact details for the retailer. While this message may contain purely factual information (i.e. it is in fact true that all television sets are 20% off this week) it falls outside this exclusion as the factual information would have brought the message within the meaning of a commercial electronic message (under clause 6);*
- *an electronic message which states that all the girls whose photos appear at a particular site are over 18 years of age would not be covered by this exclusion. While the statement may be factual it falls outside this exclusion because the message comes within the meaning of a commercial electronic message;*
- *a message discussing the erectile dysfunction and containing a link to a site where Viagra is sold would likewise fall outside this exclusion as the link has brought the message within the meaning of a commercial electronic message (under clause 6) except for this exception.*

Unsubscribe facility

A *commercial electronic message* must have information about the sender required by Section 17 of the Spam Act and must contain a *functional unsubscribe facility* that complies with Section 18 of the Act. Regulation 7 of the Spam Regulations contains conditions for electronic addresses for receiving unsubscribe messages.

Section 18 does not apply to a *designated commercial electronic message* (Section 18(1)(b)). However, notwithstanding that an unsubscribed facility may not be required in a *designated commercial electronic message*, it may be wise to include such a facility.

Privacy Act/personal information

So, if it seems likely that electronic messages can be sent to addresses relying on the consent, express or implied, of the recipient or designation of the messages as *electronic commercial messages*, is this all that needs to be considered? Well, no, it will also be necessary to consider the requirements of the Privacy Act and the Australian Privacy Principles [**APPs**].

The relevant APPs are:

- APP 3 – collection of solicited personal information;
- APP 5 – notification of the collection of personal information;
- APP 6 – use or disclosure of personal information;
- APP 7 – direct marketing.

Personal information

Personal information is defined in the Privacy Act as meaning "*information or an opinion about an identified individual, or an individual who is reasonably identifiable*". This is considered to include an address, such as an email address, for an individual, but not for an entity that is not an individual.

"must not collect personal information (other than sensitive information) unless the information is reasonably necessary for one or more of the entity's functions or activities"

APP entities

A business will only be required to comply with the APPs if the business is an APP entity, that is, generally, with some exceptions, an organisation that is not a small business operator (with an annual turnover of $3 million or less). A health service provider is an APP entity regardless of turnover.

Direct marketing

Dealing with the APPs in reverse order, APP 7.1 prohibits the use or disclosure of personal information for direct marketing, other than within certain limited exceptions. However, APP 7.8 provides that this APP does not apply to the extent that the Spam Act applies. Accordingly, the Spam Act will govern the sending of *commercial electronic messages*, and it is not necessary to consider APP 7.

However, as only APP 7 is excluded from consideration, it is necessary to consider the application of other APPs.

Correction of personal information

APP 3.2 provides that an APP entity that is an organisation "*must not collect personal information (other than sensitive information) unless the information is reasonably necessary for one or more of the entity's functions or activities*".

Collecting electronic addresses, such as emails, to send out commercial electronic messages will almost certainly be information that is reasonably necessary for the functions or activities of a business.

Notification of collection of personal information

APP 5 requires that an APP entity must take steps that are reasonable in the circumstances to notify an individual or to ensure that the individual is aware of matters that are set out in APP 5.2. These matters include the identity and contact details of the entity, which will, in any event, be required to be disclosed in a *commercial electronic message*.

Other likely relevant requirements of APP 5.2 for a business that sends *commercial electronic messages*

"The regulators for the Spam Act (ACMA) and the Privacy Act (OAIC) go to great lengths to stress that it is a very bad idea to commit breaches of the legislation.

Both Acts have very substantial penalties or breaches."

include:

- the fact that the entity collects, or has collected information and the circumstances of the collection;
- the purposes for which the information is collected;
- consequences (if any) if the information is not collected (likely to be that the individual will not receive these letters or information promulgated by the entity);
- that the APP privacy policy of the entity contains information about how an individual can access personal information or complain.

There are other requirements of APP 5.2.

If an email or other commercial electronic message is sent by a business, the entity may be able, in the body of the message, to direct the attention of the recipient to a link or document that sets out the information required by APP 5.2.

Use of personal information

APP 6 contains requirements for the use by an organisation of personal information that has been collected for a particular purpose (*primary purpose*) for another purpose (*secondary purpose*). As noted above, in relation to APP 3, if a business collects email, or other electronic addresses, for the purposes of sending out commercial electronic messages, this will be a primary purpose, and it should not be necessary to consider APP 6.

What if you get it wrong?

The regulators for the Spam Act (ACMA) and the Privacy Act (OAIC) go to great lengths to stress that it is a very bad idea to commit breaches of the legislation.

Both Acts have very substantial penalties or breaches.

ACMA says that breaches of the Spam Act "*can result in the ACMA seeking civil penalties in the Federal Court, giving an infringement notice, accepting court-enforceable undertakings or issuing a formal warning. Repeat corporate offenders may face penalties of up to $2.22 million a day*".

The OAIC advises that a recent amendment to the Privacy Act "*increases the maximum penalties for serious or repeated privacy breaches from the current $2.2 million to whichever is the greater of:*

- *$50 million;*
- *three times the value of any benefit obtained through the misuse of information; or*
- *30% of a company's adjusted turnover in the relevant period.*"

For a person other than a body corporate, the maximum penalty is $2,500,000.

These are obviously at the extreme end of the penalty spectrum, but the message is very clear that considerable care should be taken to ensure that breaches of the legislation do not occur.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Sandy Donaldson
Consultant
p: +61 8 **8124 1954**
sandy.donaldson@dwft.au

DISSECTING DECISIONS | **By Sandy Donaldson**

Trade Mark Use/Copyright and Fair Dealing – AGL v Greenpeace

Trade mark owners of marks, which are logos or devices, are well advised to ensure that they own copyright in the marks, which are *artistic works* for the purposes of copyright. This will mean that in the event of an alleged infringement of a mark, there is an additional potential cause of action for infringement of copyright, as well as trade mark infringement. This was partially successful for AGL in the matter of **AGL Energy Limited v Greenpeace Australia Pacific Limited** [2021] FCA 625.

The case involved consideration of some interesting issues in relation to both trade mark infringement and the use of trade marks and fair dealing defences for infringement of copyright.

The case

In late 2019, environmental activism organisation Greenpeace launched a campaign targeting Australian energy giant AGL, for what Greenpeace considered to be AGL's poor environmental practices. The campaign incorporated AGL's logo together with the tagline *"Australia's Greatest Liability"* (pictured below). Greenpeace used this modified logo in online banner advertisements, street posters, photographs of placards, on social media, and on a website. Each of these uses displayed the modified logo together with taglines such as *"Still Australia's Biggest Climate Polluter"* and *"Generating Pollution For Generations"*. Additionally, many of the advertisements drew attention and contained links to a detailed report commissioned by Greenpeace entitled *"Coal-faced: Exposing AGL as Australia's biggest climate polluter"*.

AGL was, unsurprisingly, unhappy with the negative publicity and brought injunctive proceedings in the Federal Court to stop Greenpeace from using its logo. That application was unsuccessful. Predictably, and in yet another example of the "Streisand effect" (when an attempt to suppress information backfires), the litigation generated huge publicity and drew significant attention to the Greenpeace campaign. Despite the loss, AGL continued to fuel the media fire and proceeded to trial before Justice Burley of the Federal Court.

The issues in the case

AGL's case was run on the premise that it did not seek to prevent Greenpeace from engaging in its campaign, but rather took issue with Greenpeace's use of its logo. AGL sought to stop that use by alleging two contraventions:

1. that the modified AGL logo is substantially identical to the AGL logo and infringed AGL's registered trade mark; and

2. that the modified AGL logo infringed AGL's copyright in the logo.

The defences

Greenpeace denied infringing AGL's copyright, stating that its use of the modified AGL logo amounts to fair dealing, which under Australian law allows copyrighted material to be used for the purpose of *criticism or review* or *parody or satire*.

Greenpeace also denied trade mark infringement on the basis that it had not used the modified AGL logo as a trade mark, that is, in relation to goods or services in respect of which the trade mark was registered.

The findings/trade mark use

AGL holds a registered trade mark for its logo. The Court had to consider whether Greenpeace's incorporation of the AGL logo in its campaign constituted a "*use*" of that trade mark for the purpose of the *Trade Marks Act*. This involved consideration of whether in the manner in which the modified logo was used by Greenpeace, it would appear to consumers that the logo was being used by Greenpeace:

1. to promote or associate any goods or services for which AGLs logo was registered,

2. so as to indicate a connection in the course of trade between those services and Greenpeace.

Burley J found that consumers would not perceive Greenpeace to be promoting or associating any goods or services by reference to the trade mark. He held that rather, Greenpeace had used the modified AGL logo specifically to refer to AGL and the goods and services that AGL provides.

On that basis, AGL failed in its trade mark infringement claim.

Copyright infringement/fair dealing

There was no dispute between the parties that AGL owned copyright in its logo or that the modified logo was a reproduction of the logo. Greenpeace instead fought the allegation of an infringement by relying on the defence of fair dealing under s 41A of the *Copyright Act*. In order to make out its defence, Greenpeace had to establish, first, that there was *"fair dealing"* with AGL's logo and, secondly, that the dealing was for the purpose of *parody* or *satire*.

Fair dealing is a notoriously elusive concept that is highly dependent on the circumstances of the case. For example, it has been described variously as:

1. "depend[ant] on the nature of the work, the character of the impugned dealing, and the particular fair dealing purpose invoked"; and

2. "a question of degree ... or of fact and impression ...".[1]

Put simply, at least one purpose of Greenpeace's use of the AGL logo must have been parody or satire, and that use must be genuine.

Burley J accepted that Greenpeace's intention was to draw public attention to and to promote public debate about AGL's conduct. This was achieved through a satirical message and was not for a commercial purpose. This was held to constitute fair dealing.

Burley J decided that because of the overlap in the concepts, it was unnecessary to distinguish between parody and satire for the purposes of the defence. His Honour held that the ridicule potent in the message of the modified AGL logo is likely to be immediately perceived and that many would see these uses as darkly humorous because the combined effect is ridiculous. It was also found that because the words *"Presented by Greenpeace"* were positioned closely to the modified AGL logo, anyone reading the message would understand that AGL would not be calling itself *"Australia's Greatest Liability"* and that the message came from Greenpeace.

The Court rejected AGL's submission that because Greenpeace seeks to bring about change by its media campaign, that must be considered to be its true purpose. Burley J held that the purpose of parody or satire is frequently to attract the attention of viewers and draw to their attention an object of criticism or ridicule, holding that the satire or parody was not supplanted by a disqualifying ulterior motive.

Additionally, the Court held for the purpose of the fair use defence, there is no need for the parody or satire to be directed towards the artistic work itself.

Criticism or review/Facebook and LinkedIn

However, it was not a total landslide for Greenpeace; Burley J found that the use of the AGL logo in the Instagram, Facebook and LinkedIn posts (pictured below) would not be perceived to have the characteristics of parody or satire.

1 *Pro Sieben AG v Carlton UK Television Ltd [1999] 1 WLR 605 (Robert Walker LJ at 613, Henry and Nourse LLJ agreeing at 619*

Greenpeace contended that these social media posts could not constitute a breach of copyright because they were for the purpose of *criticism or review* within the meaning of section 41 of the *Copyright Act*. These arguments failed.

The three key principles for determining whether something constitutes *criticism or review* are as follows:[2]

1. *Criticism* and *review* are words of wide and indefinite scope which should be interpreted liberally; nevertheless, criticism and review involve the passing of judgment; criticism and review may be strongly expressed;

2. *Criticism* and *review* must be genuine and not a pretence for some other form of purpose, but if genuine, need not necessarily be balanced;

3. *Criticism* and *review* extend to thoughts underlying the expression of the copyright works or subject matter.

With these principles in mind, Burley J considered the Instagram and Facebook posts, finding that they did not possess the character of critical comment or judgment of a work. He held that the images did not rise above the level of protest statements that are critical of AGL as a company, and would not be understood to represent criticism of review, whether of the AGL logo or any other work. His Honour found further that the commentary accompanying the posts did not sufficiently qualify the image to influence this view.

Burley J was more sympathetic to the LinkedIn post, which he said *"perhaps comes closer to amounting to criticism or review".* His Honour found that the facts and figures relating to the conduct of AGL that were the subject of the criticism are clearly set out in that post together with language such as *"More than DOUBLE the emissions OF NEXT biggest emitter",* which makes plain that the criticism is of the underlying conduct of AGL. However, His Honour went on to say that it is not apparent from this post that it *"was for the purpose of criticising or reviewing AGL's greenwashing materials, particularly because there is no reference to those materials in the post. Indeed, it is not apparent that it represents criticism of any work, whether the AGL logo or otherwise. I am not satisfied that Greenpeace has made out the defence in relation to this post".*

Conclusion

Ultimately, Burley J only granted injunctive relief restraining Greenpeace from using the modified logo with respect to the LinkedIn, Facebook and Instagram posts, but otherwise dismissed the proceedings and refused to order AGL costs.

While this appears to be, overall, a victory for Greenpeace, there are substantial implications which stem from the way the Court interpreted the fair use defence of *review or criticism.* The Court found that statements of fact (for example: *"AGL is Australia's biggest climate polluter"*) were not sufficient to constitute criticism, as the criticism must pass judgment and, in doing so, *"rise above the level of protest statements that are critical of AGL as a company".*

Organisations and individuals seeking to protest must be careful that they meet this high threshold, particularly when posting on social media.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Sandy Donaldson
Consultant
p: +61 8 **8124 1954**
sandy.donaldson@dwft.au

2 *TCN Channel Nine Pty Ltd v Network Ten Pty Ltd [2001] FCA 108, per Conti J at [66]*

INSIGHT | **By Sandy Donaldson**

Deeds vs Agreements

Many legal documents are designated as either *"Deeds"* or *"Agreements"*. What are the differences, and pros and cons, of Deeds and Agreements?

It is worth going back to basics to look at what these are before considering their relative merits or drawbacks.

Agreements/contracts

The comparison should really be between deeds and *contracts*. An agreement is not really something that necessarily gives rise to legal rights or obligations. *"Agreement"* is a wider and more general concept than *"contract"*. This is explained in some references cited in Black's Law Dictionary, 8th Edition:

> "The term' agreement', although frequently used as synonymous with the word 'contract', is really an expression of greater breadth of meaning and less technicality. Every contract is an agreement: but not every agreement is a contract. In its colloquial sense, the term 'agreement' would include any arrangement between two or more persons intended to affect their relations (whether legal or otherwise) to each other. An accepted invitation to dinner, for example, would be an agreement in this sense; but it would not be a contract, because it would neither be intended to create, nor would it in fact create, any legal obligation between the parties to it. Further, even an agreement which is intended to affect the legal relations of the parties does not necessarily amount to a contract in the strict sense of the term. For instance, a conveyance of land or a gift of a chattel, though involving an agreement, is … not a contract; because its primary legal operation is to effect a transfer of property, and not to create an obligation." *2 Stephen's Commentaries on the Laws of England 5* (L. Crispin Warmington ed., 21st ed 1950).

> "An agreement, as the courts have said, 'is nothing more than a manifestation of mutual assent' by two or more legally competent persons to one another. Agreement is in some respects a broader term than contract, or even than bargain or promise. It covers executed sales, gift and other transfers of property." *Samuel Williston, a Treatise on the Law of Contracts* § 2, at 6 (Walter H.E. Jaeger ed., 3d ed. 1957).

What is a contract?

From the comments above, it is evident that a *contract* is an *agreement* that is intended to and does create legal obligations. This involves consideration of the somewhat arcane doctrine of offer and acceptance. This equates to the parties reaching an agreement. Apart from this, a simple summary of the requisite elements for a binding contract is that there must be:

- an intention by the parties to create legal relationships or obligations;
- certainty as to the terms of the contract;

- consideration given by a party seeking to enforce an obligation to the party required to perform the obligation (unless the contract is made in a deed);
- if applicable, compliance with any formalities or the contract, such as a requirement for the contract to be in writing; and
- legal capacity of the parties to enter into a contract.

A contract can be in writing or oral, or partly in writing or oral *("parol")*. However, some contracts must be in writing, such as contracts for the sale of land. There are no requirements for signing or witnessing contracts, unless required by law.

What is a deed?

A *deed* is a document. It must be written on parchment, vellum or paper and cannot be written on other odd things like a wall or tattooed on someone.

The term *indenture* is often used synonymously with *deed*. Historically, an indenture was a deed in which the terms of the deed were written and repeated for each of the parties, and a copy for each of the parties was separated by cutting the paper or parchment with a jagged or wavy line ("indented") so that the separate parts could be fitted together to show that they were indeed the same document. Indenting is not necessary now for a deed in South Australia (*Law of Property Act 1936* section 41 (3)) and elsewhere.

The other kind of deed is a *deed poll*. This is usually made by one party, but can be made by more than one party expressing a common intention. Historically, such a deed was not indented but was cut evenly or "polled" at the top.

To be effective at common law a deed had to be signed by a signature or mark by a party to the deed and also by affixing a seal and by delivering the deed to the other party or parties. This is why signing clauses of deeds still often read "Signed, sealed and delivered" by parties. In South Australia, delivery is not necessary for an effective deed (*Law of Property Act 1936* section 41 (3)).

Sealing is also not necessary for a natural person in South Australia. Section 41 (5) provides that:

> Notwithstanding any other law, an instrument executed in accordance with this section is a deed if—
>
> a. the instrument is expressed to be an indenture or deed; or
>
> b. the instrument is expressed to be sealed and delivered or, in the case of an instrument executed by a natural person, to be sealed; or
>
> c. it appears from the circumstances of execution of the instrument or from the nature of the instrument that the parties intended it to be a deed.

Under section 41 (1)(a) of the South Australian *Law of Property Act*:

> A natural person executes a deed by signing, or making a mark, on the deed,

and under subsection (2) the execution of the deed by a natural person must be attested (witnessed):

> by at least one witness who is not a party to the deed.

There are different requirements under the *Law of Property Act* for companies and other bodies corporate. Section 41 (1)(b) provides that:

> a body corporate executes a deed by affixation of the common seal of the body corporate to the deed in accordance with the rules governing the use of the common seal;.

"Deeds, generally, have a longer period of limitation for the commencement of actions for breach or to enforce the deed. In South Australia, this is 15 years, and in some other States, it is 12 years, compared with six years for actions in relation to contracts."

"To specifically enforce a contract made by deed, it is necessary for some consideration to be provided by the party seeking to enforce the contract, as specific enforcement is a remedy provided by equity, not by law, and the equitable maximum "equity does not assist a volunteer" applies. The remedies that are available at law are principally for damages."

However, the *Corporations Act* 2001 of the Commonwealth applies to companies and section 127 (1) and (2) provide that a company (but not other corporations) may execute documents either with or without a common seal if witnessed by two directors, a director and secretary or the sole director and company secretary. Subsection (3) provides that a company may execute a document as a deed if the document is expressed to be executed as a deed (and in accordance with subsections (1) and (2)).

In some States, but not South Australia, and for companies, electronic signatures can be used for deeds.

Deeds vs contracts/pros and cons

It will be apparent from the foregoing very brief summary of aspects of deeds and contracts that there are a number of differences which may, or may not, be useful depending on the circumstances of parties, including:

- Contracts, generally, do not have to be in writing and do not have any particular formalities. This may be useful in circumstances such as, for example, terms and conditions on a Website that are to be accepted by a user.
- Deeds, generally, have a longer period of limitation for the commencement of actions for breach or to enforce the deed. In South Australia, this is 15 years, and in some other States, it is 12 years, compared with six years for actions in relation to contracts.
- Deeds do not require consideration to be enforceable. This is often put forward as one of the main advantages of a deed. However, there is a substantial qualification.

Specific enforcement

To specifically enforce a contract made by deed, it is necessary for some consideration to be provided by the party seeking to enforce the contract, as specific enforcement is a remedy provided by equity, not by law, and the equitable maximum *"equity does not assist a volunteer"* applies. The remedies that are available at law are principally for damages.

In equity, as at law, there is no consideration given to the adequacy of consideration and the proverbial *peppercorn* will be sufficient. Accordingly, where a contract is made by deed, or not by deed, it is advisable to express or include a requirement for consideration, even if this is only a nominal $ amount or some other consideration.

This is not necessary if a deed is effective to complete a transaction on execution, such as a conveyance of property. Another example is a Deed of Release of a debt which, if expressed so as to give effect to the release on execution of the Deed, will not leave anything else to be done.

This is a very brief and necessarily incomplete examination of what is a very complex topic, but it will, hopefully, give some guidance as to the relative requirements and merits of deeds and contracts (agreements).

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Sandy Donaldson
Consultant
p: +61 8 **8124 1954**
sandy.donaldson@dwft.au

NEWS & VIEWS | **By Sandy Donaldson**

Is a Trade Mark License a Franchise?

In Australia, franchises are regulated by the *Franchising Code of Conduct* **(Franchise Code)** made under section 51 AE of the *Competition and Consumer Act 2010 (Commonwealth)*. A franchise consists of rights and obligations contained in a *franchise agreement,* which is defined in clause 5 of the Franchise Code.

Elements of a franchise agreement

Two of the required elements of a franchise agreement are that the agreement is an agreement:

b. in which a person (the ***franchisor***) grants to another person (***franchisee***) the right to carry on the business of offering, supplying or distributing goods or services in Australia under a system or marketing plan substantially determined, controlled or suggested by the franchisor or an associate of the franchisor; and

c. under which the operation of the business will be substantially or materially associated with a trade mark, marketing or a commercial symbol:

   i. owned, used or licenced by the franchisor or an associate of the franchisor; or

   ii. specified by the franchisor or an associate of the franchisor.

Trade mark licenses

So, because of the requirements under clause 5 (c), all franchises will inevitably include a trade mark licence. The Franchise Code provides that *"trade mark"* has the meaning given by the *Trade Marks Act 1995 (Commonwealth), that is:*

> … a sign (including any letter, word, name, signature, numeral, device, brand, heading, label, ticket, aspect of packaging, shape, colour, sound or scent (or any combination of these)) used, or intended to be used, to distinguish the goods or services dealt with or provided in the course of trade by a person from goods or services so dealt with or provided by any other person.

Under the Franchise Code, a trade mark need not be registered as an Australian (or other) trade mark if it comes within the definition.

However, not all trade mark licenses will be franchises, and the licensor of a trade mark may not wish the licence to fall under the Franchise Code as a franchise agreement as the obligations on a franchisor are extensive and potentially onerous. Determining whether a trade mark licence falls over the line and is a franchise can be a difficult and uncertain exercise.

Control by a trade mark owner

The licensor of a trade mark, particularly a registered trade mark, will wish to ensure that the trade mark is used by the licensee in a manner that does not devalue or diminish the reputation of the trade mark or result in the licensor losing the trade mark.

If the owner of a trade mark, whether a registered or unregistered mark, allows the mark to be used by another, or others, this usage may mean that the mark ceases to be one which distinguishes solely the goods or services of the owner of the trade mark. For a common law, or unregistered trade mark, or registered mark, this may mean that the mark has become *generic* and can be used by other traders. For a registered Australian trade mark, if the owner is not using it and has not used it for a period of three years, an application may be made under the *Trade Marks Act* to remove the trade mark from the Register of Trade Marks.

If a registered trade mark is not used by the owner but is used under licence by another, or others, then the use by another trader, an *authorised user*, may be taken to be use by the trade mark owner (section 8 (3) of the *Trade Marks Act*) and this will mean that the mark cannot be removed from registration for non-use. Use of a trade mark by another trader will, however, only be an *authorised use* if and to the extent that *"the user uses the trade mark under the control of the owner of the trade mark"* (section 8(2)). The other trader using the mark will be taken to use the mark under the control of the owner if *"the owner of (the) trade mark exercises quality control over goods or services"* (section 8(3)).

The degree of quality control

The dilemma for the licensor of a trade mark who does not wish the licence to be a franchise agreement is to ensure sufficient quality or other control to protect the mark but not to exercise a degree of control that amounts to *a system or marketing plan substantially determined, controlled or suggested by the franchisor* (licensor) under clause 5 (b) of the Franchise Code.

The degree of quality control necessary to ensure that a registered trade mark cannot be removed for non-use must be more than just a contractual requirement in a trade mark licence. This is illustrated by a case relating to the registered trade mark *Wild Geese* for wine (*Lodestar Anstalt v Campari America LLC* [2016] FCAFC 92). The Full Federal Court considered a license agreement in which there were specific quality control requirements. The requirements were found to be somewhat illusory as they were a very low bar, but, more importantly, the Court found that the licensor did not actually enforce the requirements, and there was no actual control.

The clear message from the *Wild Geese* case is that a licence of a registered trademark should contain requirements for quality control that are reasonable, having regard to the nature of the product or services and the circumstances and that these requirements should actually be enforced by the licensor. This may involve requirements for reports, inspections and samples and similar provisions.

A system or marketing plan

Whether such quality control provisions then push a trade mark licence over the line so as to require compliance with *a system or marketing plan substantially determined, controlled or suggested by the franchisor* (licensor) so that it will be a franchise agreement caught by the Franchise Code will require consideration in each case of the terms of the license agreement and also the active measures to be taken to ensure compliance with quality control provisions.

There is no definition or guidance in the *Franchise Code* or legislation as to what constitutes *a system or marketing plan*. A number of Courts have grappled with this issue and have described various factors which will be taken into account in considering whether a *system or marketing plan* is *substantially determined, controlled or suggested by the franchisor* (licensor), but there is no definitive statement, and no authority specifically dealing with a license agreement of a trade mark that contains provisions that are only specifically intended to ensure adequate quality control.

ACCC v Kyloe

In *ACCC v Kyloe Pty Ltd* [2007] FCA 1522, the ACCC asserted that Kyloe was operating as a franchise for the distribution of ice-drink machines and that the Distribution Agreement was really a franchise agreement. The Court found that the business was not a franchise because Kyloe, amongst other things, did not have the requisite control over the way the distributor operated the business. It is interesting to note that although Kyloe:

a. conducted a sales training regime; he would go to sub-distributors houses for 2-3 hours to show them how to use the machines, educate them on obligations and restrictions and provide one 'point of sale pack' per machine (including poster, mobile cup, flavour label);

b. gave advice on where to put machines;

c. gave exemplar scripts and exemplar retail prices; and

d. required sub-distributors to purchase a minimum amount of concentrate, straws and cups each year (although there were no sales quotas);

there were no:

a. exclusive or divided territories within which distributors might operate;

b. rights to inspect financial records of sub-distributors, to conduct audits or to inspect premises at which the machines had been installed; or

c. obligations on sub-distributors to produce a business plan.

Apart from minor restrictions imposed by sub-distributors agreements concerning the use of advertising materials and the need for sub-distributors to receive instruction about the operation of machines, the sub-distributors were free to run the business as they pleased. The Court also found that the obligations to submit written reports and order minimum quantities of products were requirements that could not be and were not enforced.

Capital Networks v auDomain Administration

On the question of whether there was any system or marketing plan that was *"substantially determined, controlled or suggested"* by the alleged franchisor, the Court in *Kyloe* looked to indicators set out in *Capital Networks Pty Ltd v .auDomain Administration* [2004] FCA 808. In this case, the Court examined:

a. the extent to which the distributors business involved the sale of the alleged franchisor's products - the smaller the percentage, the less likely it will be that the necessary degree of control will be found to exist;

b. whether or not the alleged franchisor ostensibly assumed responsibility for product outlets by causing them to be operated with the appearance of some centralised management and with uniform standards as regards the quality and prices of goods sold, services rendered and other material instances of the operation;

c. whether or not the alleged franchisor placed the distributor under an obligation to advertise, conduct promotions and stock accessories; and

d. the extent to which the alleged franchisor controls the franchisee's business having regard to matters such as prescription of the hours and days of operation, advertising, financial support, auditing of books, inspection of premises, control over lighting, employee uniform, prices, trading stamps, hiring, sales quota and management training.

These indicators were considered "helpful" for the assessment of whether a system or marketing plan exists. In *Capital Networks*, the following factors supported the finding that a system or marketing plan was substantially determined, controlled or suggested by the franchisor:

a. the provision by the franchisor of a detailed compensation and bonus structure for distributors selling its products;

b. a centralised bookkeeping and record-keeping computer operation provided by the franchisor for distributors;

c. a scheme prescribed by the franchisor under which a person could become a distributor, direct distributor, district director, regional director, or zone director;

d. the reservation by the alleged franchisor of the right to screen and approve all promotional materials used by distributors;

e. the prohibition on re-packaging of products by distributors;

f. the provision of assistance by the alleged franchisor to its distributors in conducting 'opportunity meetings';

g. suggestion by the franchisor of the retail prices to be charged for products; and

h. a comprehensive advertising and promotional program developed by the alleged franchisor.

Master Abrasives Corporation v Williams

The Court in *Kyloe* also considered the case of *Master Abrasives Corporation v Williams* (1984) 469 NE 2d 1196, which had earlier set out some further indicators that were found to be relevant with regard to considerations re *"system or marketing"* plan. These were:

a. the division of a state into marketing areas;

b. the establishment of sales quotas;

c. the franchisor having approval rights of any sales personnel whom the franchisee might seek to employ;

d. a mandatory sales training regime;

e. the provision of quotation sheets to the franchisee's employees;

f. provision by the franchisor of prescribed invoices and other sales forms;

g. a requirement that franchisees elicit certain information from their customers and provide that information to the franchisor; and

h. a restriction on the franchisee selling any of the franchisor's products without first consulting the franchisor.

The Full Court in *Kyloe* also stated that this was not an exhaustive list and that one fact by itself would not lead to the assumption of a franchise agreement.

Decision in Kyloe

The Court in *Kyloe* held that the requirements of a franchise agreement were not satisfied as the agreements did not constitute the granting of a right to carry on a business under a *system or marketing plan* on the basis that there was not enough control exercised by Kyloe, and there was a lack of any system or marketing plan.

Rafferty v Madgwicks

In *Rafferty v Madgwicks* [2012] FCAFC 37, there were several agreements whereby Rafferty was a party in the selling of Modular Accommodation Units. In order to determine whether the Rights Agreement (which was just one of the agreements entered into for the venture) was a franchise agreement as claimed by Rafferty, the Court sought to examine the level of control that Magwicks had over Rafferty's conduct of the enterprise.

In this case, the Court looked at what was the necessary "control" and considered these features:

a. franchisee held an exclusive right to promote, market, sell and install the products;

b. franchisee had to comply with all reasonable directions as to quality control in marketing;

c. franchisor had absolute discretion to scrutinise proposed sales and to approve any project;

d. franchisee was required to meet specific sales targets;

e. franchisee was required to maintain financial records on a management system approved by the franchisor, who could audit those records;

f. restriction on franchisee selling competing products; and

g. requirement to comply with the franchisor's policies and procedures as notified.

The Court held that the Rights Agreement was indeed a franchise agreement and not a license, for the purposes of the Franchising Code of Conduct, due to the following elements as indicative of a "system or marketing plan" that were present in the contractual relationship:

a. specific requirements for accounting and record keeping;

b. reservation by the franchisor of a right to audit books of account and other records;

c. the inability of the franchisee to supply goods or services without the approval of the franchisor;

d. requirement for signage, mechanising, promotional or advertising material to be approved by the franchisor;

e. a right of the franchisor to approve sales staff, bonus structures, reporting procedures and training for staff; and

f. stipulation of retail prices and sales quotas.

Criteria said to be indicative of a system being '*substantially determined, controlled or suggested* by the franchisor' include:

a. the extent to which the franchisee's business involved selling the franchisor's goods or services;

b. the degree to which the franchisor assumes responsibility for centralised management or standards of quality;

c. whether the franchisor dictates any mandatory obligations with respect to advertising or marketing; and

d. the degree to which the franchisor controls the franchisee's business having regard to advertising and financial support, auditing books and financial reporting requirements, staff and sales quota, training and the like.

As the Court held the agreement was a franchise agreement, Madgwicks was in breach of the Code for failing to provide a disclosure document, information statement and other information as required to Rafferty's, the franchisee.

Freedom Foods v Blue Diamond Growers

In *Freedom Foods Pty Ltd v Blue Diamond Growers* [2021] FCA 172, Freedom Foods was the "exclusive" manufacturer of Almond Breeze under a License Agreement for a Territory including Australia. The Court ultimately found that the Licence Agreement did not satisfy paragraph (b) of clause 5(1) of the Franchise Code, and as such, the Licence Agreement is not a *"franchise agreement"* for the purposes of the Franchising Code because there was:

a. no requirement for Freedom Foods to operate "under" a marketing plan;

b. no sufficient relationship between the marketing plan and the right to carry on the business; and

c. not enough to establish that the promotional plan in place is "substantially determined, controlled or suggested".

Workplace Safety Australia v Simple OHS Solutions

In the case of *Workplace Safety Australia v Simple OHS Solutions & Anor* [2015] NSWCA 84; [2015] HCATrans 264, the NSW Court of Appeal examined whether the primary judge was correct in determining that the distribution agreement was a franchise. The distribution agreement between the parties contained several indicia that WSA had the requisite control over OHS's carrying on of the business and that the terms of the distribution agreement created obligations upon OHS to operate under a system or marketing plan, thereby fulfilling the requirements of the Franchising Code. More specifically, there was a requirement for OHS to:

a. to act as its exclusive distributor;

b. subscribe 15 new customers to subscription packages per month; and

c. if this minimum customer requirement was not met for each 6-month period during the term of the agreement, the appellant had the right to immediately terminate the agreement.

The appellant purported to terminate the agreement on the grounds of the respondent's failure to meet the minimum customer requirement and non-payment of a quarterly instalment. The respondent contended that the distribution agreement was a franchise agreement within the meaning of the Franchising Code of Conduct and that the appellant hadn't given them the disclosure requirements of the Code.

When considering whether the primary judge erred in his finding, the Court of Appeal found enough evidence to suggest WSA had provided a manual to OHS and required it to prepare a business plan. There was also a requirement to conduct the business under a marketing framework. At [92], Bathurst CJ stated that he "respectfully agree[s] that a system or marketing plan does not have to be spelt out in a franchise agreement. The contrary proposition would allow the statutory purpose of the Code to be circumvented".

Apple Computer Australia v Mekrizis

In *Apple Computer Australia Pty Ltd v George Mekrizis* [2003] NSWSC 126, the Court looked at whether the Reseller Agreement (**RA)** identified a system or marketing plan under which the relevant business was to be operated and, if so, whether such system or marketing plan was substantially determined, controlled or suggested by Apple. However, *"The owner of a trade mark intending to license the mark for use by another trader must give careful consideration to the potentially conflicting requirements to ensure sufficient quality control so as not to endanger the trade mark but, on the other hand, not to fall within the net of the Franchise Code as a franchise agreement."*

it was not a question of whether such a system or marketing plan developed during the course of the relationship between the parties, but whether the agreement can be *construed* as granting a right to carry on the business under such a system or marketing plan. Apple submitted that although a right to carry on the relevant business was granted under the RA, it did not grant such a right to carry on the business *"under a system or marketing plan substantially determined, controlled or suggested"* by it and that, the RA was not a franchise agreement.

Although a number of terms are defined in the Code (clause 4), *"system"* and *"marketing plan"* are not defined. In these circumstances, it is appropriate to give those terms their ordinary meaning in the context of the Code and the relationship between Apple and the relevant parties. The Court found that a "system" is a set of principles or procedures according to which the relevant business is operated. Alternatively, it is an organised scheme or method pursuant to which the business is operated. A "marketing plan" is a detailed proposal for achieving the promotion or advertising of Apple's products. The question is whether the RA identified a system or marketing plan under which the relevant business was to be operated and if so, whether such system or marketing plan was *substantially determined, controlled or suggested* by Apple. The Court ultimately held that although there were multiple agreements, the requirements of a franchise were not satisfied.

Navigating the minefield

These are only some of the cases that have considered the provisions of the Franchising Code and the elements of what constitutes a *franchise agreement.* The owner of a trade mark intending to license the mark for use by another trader must give careful consideration to the potentially conflicting requirements to ensure sufficient quality control so as not to endanger the trade mark but, on the other hand, not to fall within the net of the Franchise Code as a *franchise agreement.*

Although there is no definitive statement of the terms, of a license agreement that may achieve these objectives, analysis of the cases does indicate that it should be possible for a trade mark to be licensed by a straightforward licence agreement with adequate quality control provisions which do not cause the agreement to be a *franchise agreement*, but careful consideration should be given, and advice should be taken, in relation to the terms of the license agreement.

Penalties

The penalties for contravention by a body corporate of some provisions of the Franchising Code have been amended and, from 15 April 2022, can attract penalties being the greatest of:

- $ 10 million;
- three times the benefit obtained by the body corporate obtained directly or indirectly that is reasonably attributable to the contravention (if a court can ascertain this);
- if the Court can not determine the value of the benefit, then 10% of the annual turnoverof the body corporate.

Given these penalties, there is a very strong incentive not to get it wrong when determining whether the Franchise Code does apply.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Sandy Donaldson
Consultant
p: +61 8 **8124 1954**
sandy.donaldson@dwft.au

NEWS & VIEWS | **By Joanne Cliff**

Parenting Matters Now Firmly Focused on Child's Best Interests

In 2006, the *Family Law Act (1975)* (**Act**) was amended to introduce the presumption of parents having equal and shared parental responsibility for children. It was often argued that the amendment meant equal time and orders made for equal time, but this was never the intention. The amendment allowed parents to have an equal say in major long-term parenting issues such as education, medical and health matters, religion, schooling, and surname. This meant that even if a child did not live with each parent for an equal amount of time, the parent with less time had to be consulted in relation to these matters.

The government has now passed new amendments to the Act, which will come into operation in May 2024. These amendments repeal the presumption of equal and shared parental responsibility, the related equal time and substantial and significant time provisions. The amendments reinforce that parenting orders should be made based on the child's best interests with the hope that they will reduce complexity and lead to better outcomes for children.

While the presumption of equal and shared parental responsibility never applied in circumstances where it could be shown that a parent had engaged in violence, abuse or neglect of a child, it now means that a Court will have to allocate responsibility for making long-term decisions. The change allows for joint decision-making between parents, or for one parent to have sole responsibility for decision-making, or there may also be a halfway house where a parent has sole decision-making power over certain issues. In circumstances where there are no specific orders dealing with major long-term issues, a Court may allow the parent with whom the child is spending time to make decisions without any requirement to consult the other parent. In the past, there has been conflict between parents as to what decisions can be made when a child is spending time with each parent.

If an order is made for joint decision-making, the amendments state that the parents must consult each other and make a genuine effort to come to a joint decision.

With the focus now firmly on what is appropriate and safe for the child rather than the entitlements of parents, the Court will consider what arrangements will best promote the safety of the child. Issues the Court will consider include:

- family violence, abuse and neglect of a child;
- any views expressed by the child;
- the developmental, psychological, and emotional needs of the child;
- the capacity of the proposed carer to provide for the child's needs, bearing in mind that the Court must also be mindful of the benefit of a child maintaining a relationship with both parents; and
- if the child is Indigenous, then the child's right to

enjoy connection with family, community, culture, country, and language.

The amendments will inevitably lead to more litigation, with parents asserting that equal time is not appropriate. Parents who already have existing orders may also see this as a chance to apply to the Court to reconsider the order under the new regime. However, the changes to the Act also state that a Court has to consider if there has been a significant change in circumstances and whether it is in the child's best interests for the order to be reconsidered.

The Court now has the power to make a "harmful proceedings" order, which will stop one party from commencing proceedings against the other without leave of the Court. This would apply in situations where a child who is the subject of the proceedings may suffer harm if the proceedings are allowed to be instituted.

The changes to the Act firmly put the decision-making back in the hands of the Court to determine in each case where the responsibility lies for parenting issues, but the paramount consideration will always be the best interests of the child.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Joanne Cliff
Director
p: +61 8 **8124 1803**
joanne.cliff@dwft.au

NEWS & VIEWS | **By William Esau & Francesco Mosca**

Residential Tenancies Act Amendments Navigating the Impact on Landlords

The *Residential Tenancies Act 1995* (SA) (**Act**) has recently undergone significant amendments, ushering in a new era of rights and responsibilities for landlords and tenants. Although these changes aim to enhance the rights of both parties, it's evident that tenants stand to benefit more. In this article, we will delve into the most impactful changes brought about by the amendments, focusing on their potential implications for landlords and suggesting proactive measures to navigate the evolving landscape of rental property management.

Here is a summary of some of the key amendments.

Tenant pet ownership

Under the new amendments, tenants now possess the right to apply to landlords for permission to have pets. This change increases administrative costs for landlords, who can now anticipate pet-related requests from tenants. Landlords are required to respond to such requests within 14 days; failure to do so will result in automatic acceptance. If a landlord wishes to deny a pet application, permissible grounds must relate to reasonable conditions regarding the type of pet and the nature of the premises. These reasons must be provided in writing.

Acceptable grounds for refusal include:

- Keeping the pet would exceed a reasonable number allowed.
- Unsuitability of premises due to lack of proper fencing or open space.
- Keeping the pet poses an unacceptable health or safety risk.
- Contravention of laws or by-laws.

Tenants dissatisfied with a refusal can seek

a tribunal order to overrule the landlord. The allowance of pets and the introduction of an appeal process are anticipated to increase administrative costs for landlords. To mitigate risks, landlords should proactively establish policies for housing pets, considering the permissible considerations allowed under the new amendments.

Alterations to residential premises

The amendments allow tenants to request alterations to the property for mobility or ease of access due to a disability. Tenants may also make minor changes, such as window fittings or drilling holes for picture frames, with the obligation to restore the property to its original state at the termination of the lease at their own cost. Landlords may refuse alterations for specific reasons, including impending termination or if the alterations would significantly change the premises or violate laws. Landlords must carefully consider any refusal to allow alterations in accordance with the Act.

Notice to be given at the end of a fixed term

The amendments prohibit landlords from ending a fixed-term lease agreement without grounds. A prescribed ground is now required, and the notice period has increased from 28 to 60 days. If the tenant receives notice, they can give up possession before the end of the fixed term and will not be liable to pay rent if they provide at least 7 days' written notice of their intention to vacate. This amendment allows tenants to vacate the property earlier without rent obligations after early vacation.

Rents

Amendments to the Act restrict the ability of landlords and tenants to increase rent by mutual agreement. Rent may not be increased within 12 months of the tenancy's commencement or the last increase.

Excessive rents

Amendments to the Act now empower the SACAT to examine whether a rent increase is disproportionate. If SACAT limits the rent and the landlord insists on an amount exceeding the prescribed limit, the penalty has increased from $2,500 to $25,000.

Inspections

Changes to the legislation now restrict landlords to inspecting residential premises no more than four times a year, with a required notice of no more than 28 days. This amendment will make it harder for landlords to monitor the state of their property.

Changes to fines

Amendments increase penalties for breaching the Act, demanding heightened attention from both tenants and landlords to ensure compliance.

These amendments signify the government's effort to bolster tenant protection, albeit with potential consequences for landlords.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

William Esau
Director
p: +61 8 **8124 1955**
william.esau@dwft.au

NEWS & VIEWS | By Amy Bishop

New Reasons to Keep Your Contract Terms Fair

Substantial changes have been made to the Australian Consumer Law[1] to ensure standard form contracts contain fair terms that level the playing field for small to medium businesses and significantly increase the number of small business contracts that are captured under the unfair contract term protections. ACCC Deputy Chair Mick Keogh states, "The changes to the unfair contract terms laws should motivate businesses to take steps to ensure their standard form contracts are fair, including by removing or amending concerning terms."[2]

Penalties for unfair contract terms

The motivation Mr Keogh refers to is the significant penalties to be imposed upon those seeking to implement unfair contract terms introduced on 9 November 2023. Previously, when a standard form contract was found to have an unfair contract term, the term was void and unenforceable without penalty. These new penalties, at their maximum shown below, are designed to inspire businesses to give full consideration to ensuring the terms are fairly balanced when preparing standard form contracts.

Maximum fine for corporations

- $50 Million.
- 3 times the value of the benefit received from the unfair term.
- If the value cannot be determined, 30% of the adjusted turnover during the breach period.

Maximum fine for an individual

- $2.5 Million.

1 Found in Schedule 2 of the *Competition and Consumer Act 2010 (Cth)*.
2 Businesses urged to remove unfair contract terms ahead of law changes | ACCC.

Who is going to be impacted?

Standard form contracts

The regime of protection from unfair contract terms applies to consumer or small business contracts **if** they are standard form contracts. A contract is deemed to be a standard form contract unless this presumption is rebutted. Demonstrating that a contract is not a standard form contract will depend largely on whether both parties are given an effective opportunity to negotiate the terms, as well as taking consideration of matters such as any power disparities between parties and the number of contracts used in the past that are substantially the same; the latter being a new factor to take into account. Certainly, standard terms and conditions that apply to all customers in the same way, and most template contracts, will be standard form contracts.

Additionally, the new provisions have given the Courts power to determine that a contract is a standard form contract, even when there is an opportunity to negotiate the contract, but the negotiations are limited to small and insignificant terms of the contract. A standard form contract can also be found when one party is given the opportunity to choose from a preset selection of options rather than negotiating a new term. These changes are clearly directed to ensuring that, unless both parties have had a real opportunity to negotiate the terms of a contract, it could be subject to analysis of its terms for fairness.

Consumer contracts

The meaning of a consumer contract has not been altered and refers to any contract for a supply of goods, services or an interest in land to an individual whose acquisition of the goods, services or interest is wholly or predominantly for personal, domestic or household use or consumption. This obviously captures most contracts with individual end consumers of domestic products.

Small business contracts

Significant changes have been made to the scope of a small business contract. Previously, unfair contract terms protections were only applied to contracts entered into with businesses employing less than 20 persons and where the contract price was for no more than $300,000 or, for a contract spanning a term greater than 12 months, no more than $1,000,000.

Under the new changes, small business contracts will be deemed to be contracts where either party has fewer than 100 employees and has a turnover of less than $10,000,000. These changes aim to substantially increase the number of small business contracts captured under the unfair contract term protections, increasing the risk of fines for hundreds if not thousands of small business contracts. Importantly, they will apply whether the business that has created the contract or the one which it is being imposed upon is within these parameters.

"... small business contracts will be deemed to be contracts where either party has fewer than 100 employees and has a turnover of less than $10,000,000."

Some exclusions

Even if you have a standard form contract, which is a small business or a consumer contract, there are some terms that are not subject to an unfair contract terms analysis. These include:

- Terms that set out the main subject matter of the contract
- Terms that set the upfront price payable under the contract
- Terms that are required or expressly permitted by law

Also, Constitutions, certain shipping contracts and contracts regarding payment systems used by banks are excluded from the unfair contracts terms regime. Constitutions are, of course, instead subject to compliance with the *Corporations Act 2001* (Cth).

What is an unfair contract term?

Any term or provision of a standard form contract which would, should it remain in effect, create a significant imbalance in the rights and obligations of the parties which arise under the contract and result in one party suffering a detriment will be an unfair contract term. However, if a term is included in the contract to reasonably protect a party's

"... if a term in a contract grants one party unilateral authority to amend, interpret, renew or terminate the contract, there is a high likelihood that the term will be deemed unfair."

legitimate interests, then it will not be considered an unfair term. If there is a legitimate interest requiring protection, such as for management of costs or risk or protection of property, it needs to be proven as being reasonably necessary when balanced against any detriment of the other party.

A good example of this is the case of *Turner v MyBudget Pty Limited.*[3] MyBudget's business involves providing assistance with debt management. In providing these services, MyBudget collected and managed its client's income and expenses. In carrying this out, MyBudget pooled all its clients' money into one account and created "virtual accounts" for each customer. MyBudget's terms provided a discretion for MyBudget to use interest earned on clients' funds to pay bank fees. Although there was a unilateral power given to MyBudget in the contract, it was seen as protecting a legitimate interest of MyBudget in that its costs of accounting for the interest would likely outweigh the small amounts to be returned to customers. The arrangement of keeping interest and absorbing other costs was seen to be a sensible and reasonable way to deal with this. Consequently, the term was not unfair.

As a general rule, if a term in a contract grants one party unilateral authority to amend, interpret, renew or terminate the contract, there is a high likelihood that the term will be deemed unfair. Similarly, penalty provisions for breach of a contract, unless protection of legitimate interests can be shown, are likely to be seen as unfair contract terms.

This was demonstrated in *ACCC v Servcorp Limited*[4] where terms in Servcorp's 'base terms' providing an obligation to pay for services provided by Servcorp at rates determined by Servcorp and giving Servcorp the ability to unilaterally terminate the contract were found to be unfair. These provisions gave Servcorp the ability to unilaterally make decisions impacting both parties and were, therefore, unfair contract terms and void. This meant Servcorp could not rely on those terms, and their customers did not need to abide by them or pay the fees. At the time of this case, no penalties could be imposed on Servcorp, so, at worst, it missed out on receiving the fees for services.

Next steps

It is advisable to review your standard form contracts, as recommended by the ACCC (Businesses urged to remove unfair contract terms ahead of law changes | ACCC). You should consider whether the terms grant one party unilateral powers or are otherwise imbalanced without any legitimate basis. The financial consequences of just having an unfair contract term in a standard form contract, even if it is not sought to be imposed, are significant, and all businesses need to ensure they are fully prepared to avoid such risks.

For more information, you are welcome to watch a recording of a webinar on this topic at: https://www.dwfoxtucker.com.au/event/seminar-the-consequences-of-unfair-contract-terms

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Amy Bishop
Special Counsel
p: +61 8 **8124 1827**
amy.bishop@dwft.au

3 [2018] FCA 1407.
4 [2018] FCA 1044.

INSIGHT | **By John Walsh & Tiffany Walsh**

Seriously Injured Workers and the Obligation of Mutuality

The Court of Appeal ensures that the Return to Work Act recognises that the employment relationship is about far more than just the provision and performance of work duties.

The decision of the Court of Appeal of the Supreme Court of South Australia, *Department for Child Protection v Morris* [2022] SASCA 131, has significant implications for the scheme, especially for seriously injured workers and/or workers who are totally incapacitated for work.

An object of the RTW Act is to compensate workers to the extent that they have an incapacity for work. The Court of Appeal's decision emphasises the fact that the RTW Act was <u>not</u> intended to create a pension scheme for seriously injured workers and prevent those workers from suffering any penalty for conduct which violates the necessary degree of co-operation required between worker and employer.

In accordance with the *Return to Work Act 2014 (SA)* ("**RTW Act**"), a person who has sustained a work injury which has caused them to be permanently impaired to such a degree that they are determined to be a 'seriously injured worker' is entitled to receive weekly payments in respect of that incapacity until they reach retirement age.

The RTW Act set outs the circumstances in which a person's weekly payments may be discontinued. One such circumstance in which a person's weekly payments may be discontinued is if they have breached the 'obligation of mutuality'.

Obligation of mutuality

Until recently the Courts had restricted the application of the mutuality obligation to injured workers with capacity to perform work. This stood in contrast to other obligations contained in Section 48 of the RTW Act (and its predecessors), which apply to a worker whether, or not, they had any capacity for work.

This definition meant that injured workers who had no capacity for work but otherwise breached their employment obligations (in circumstances where it was not

"A worker therefore breaches the obligation of mutuality if they have conducted themselves in a manner which is "fundamentally destructive of the required mutuality between and employee and employer which enables the conclusion that the employee is not ready, willing or able to undertake or adhere to the responsibilities and duties of employment."

possible for their employment to be terminated for serious and wilful misconduct) were still entitled to receive weekly payments. An example of this might be an injured worker who reaches an agreement with the employer to terminate the employment relationship, but then breaches one of their ongoing obligations such as to keep their employer's confidential information confidential. In a situation such as this, employers (either directly for self-insured employers, or through their premium for registered employers) were still required to pay weekly payments to injured workers who had breached their employment obligations.

Background

In *Morris*, the worker had been designated as a seriously injured worker, (the worker had been assessed prior to the commencement of the RTW Act as having sustained a 64% whole person impairment as a result of a work injury sustained in 2002). In 2017 and 2018 (respectively) the worker separately pleaded guilty to trafficking in methylamphetamine and attempting to dissuade a witness from giving evidence. The worker also used a Department for Child Protection ("**Department**") ID in the commission of the latter of these offences. Accordingly, her employer (the Department) discontinued her weekly payments pursuant to Section 48(3)(g) of the RTW Act on the basis that she had breached mutuality.

The worker disputed the discontinuances (there being two separate determinations discontinuing the worker's weekly payments) through the South Australian Employment Tribunal, and at first instance the Tribunal found in her favour on the basis that in order for the worker to have breached the obligation of mutuality, she was required to have some capacity to work. This was despite the Tribunal finding that:

> *"… it is difficult to imagine a more graphic example of an employee's conduct that is utterly inconsistent with the necessary degree of co-operation required of a contract of employment. The circumstances of this offending also constituted a breach of mutuality."*[1]

This decision was upheld on Appeal to the Full Bench of the South Australian Employment Tribunal, before the Department appealed to the Court of Appeal of the Supreme Court of South Australia.

The Decision of the Court of Appeal

The Court of Appeal found that the obligation of mutuality as encapsulated in the RTW Act in Section 48(3) has significantly expanded on the historical definition of the obligation and that the worker's:

> *"… convictions for drug trafficking and attempting to dissuade a witness from giving evidence represented serious breaches of the obligation of mutuality because her criminal conduct was **"utterly inconsistent with the necessary degree of co-operation required of a contract of employment**" of a public servant"*[2] (emphasis added),

thus accepting the Department's characterisation of mutuality as "***the necessary degree of co-operation as between worker and employer"***. Such a definition requires that **both parties do all things necessary to maintain an effective employment relationship**.

1 *Morris v Department for Child Protection [2020] SAET 92, [46].*

2 *Department for Child Protection v Morris [2022] SASC 131, [131].*

"not unjust to require that a totally incapacitated worker, including a seriously injured worker, abide by the requirements of that worker's employment."

A worker therefore breaches the obligation of mutuality if they have conducted themselves in a manner which is *"fundamentally destructive of the required mutuality between and employee and employer which enables the conclusion that the employee is not ready, willing or able to undertake or adhere to the responsibilities and duties of employment."*[3] This can include circumstances unconnected with the worker's employment, such as criminal conduct on the part of the worker, which undermines their employability.

Their Honours found that such an obligation was no longer restricted to only those who had a partial capacity to work, but that:

> *"... there is nothing in the text or context of these provisions, or the [RTW] Act as a whole, to suggest that these provisions have no application to workers who are totally incapacitated. None of these provisions is necessarily confined in operation to workers with some capacity for work."*[4]

Not only that but, their Honours found that criminal misconduct, as was committed by the worker, *"provides a stark example of a case where both the employability of the [worker] and the required element of mutuality have both been undermined"*[5] and that it is *"not unjust to require that a totally incapacitated worker, including a seriously injured worker, abide by the requirements of that worker's employment."*[6]

Their Honours concluded that:

> *"The designation of a worker as "seriously injured" is an important aspect of the [RTW] Act. That designation carries with it valuable entitlements that may be life long or, in the case of weekly payments, that may subsist until normal retirement age.* ***As important as the entitlement to weekly payments is, it does not amount to a statutory sinecure which is to be enjoyed regardless of criminal misconduct by a worker which is both inimical to and destructive of the mutuality required in an effective employment relationship"*** (emphasis added).

Their Honours ultimately found that the Tribunal and the Full Bench should have found that Section 48(3)(g) of the RTW Act does have application to a worker who is totally incapacitated for work.

3 *Department for Child Protection v Morris [2022] SASC 131, [75].*
4 *Department for Child Protection v Morris [2022] SASC 131, [155].*
5 *Department for Child Protection v Morris [2022] SASC 131, [106].*
6 *Department for Child Protection v Morris [2022] SASC 131, [169].*

Practical impact of decision and recommendations

The practical impact of this decision is that injured workers must be mindful of all their employment obligations at the relevant time in order to preserve their entitlement to weekly payments.

In addition to this, Compensating Authorities and particularly Self-Insured Employers, ought to be undertaking a review of their ability to provide suitable employment in respect of any seriously injured workers. Providing suitable employment to a seriously injured worker will benefit both injured workers (who will remain engaged in the workforce) and Compensating Authorities who will see a significant reduction in their liability for weekly payments.

Clearly there remains a distinction to be drawn between:

1. workers with capacity;

2. seriously injured workers with capacity; and

3. injured and seriously injured workers with no capacity.

The unique circumstances of each case will be important in determining whether the obligation of mutuality has been breached. In particular, Compensating Authorities will need to consider what is required for the necessary degree of cooperation between the employer and worker, having regard to all the circumstances of the employment relationship. As an example, it could not reasonably be asserted that there is a breach of mutuality if the employer and worker have agreed to the terminate the employment relationship.

While it was not directly an issue for the Court of Appeal, it was a necessary finding that seriously injured workers remain subject to section 48 of the RTW Act. As such, although the RTW Act makes it clear that a Compensating Authority cannot compel a seriously injured worker to perform work as part of a recovery/return to work plan, a seriously injured worker remains subject to the requirement to:

- undertake work that is offered and the worker is capable of performing (section 48(3)(e)); and

- participate in assessments of the worker's capacity and/or employment prospects (section 48(3)(f).

This expanded definition of mutuality also means that seriously injured workers with no capacity for work need to remain mindful of their employment obligations, such as maintaining confidentiality and not bringing their employer into disrepute.

If a Compensating Authority determines (or an employer wishes to seek a determination to that effect) that the obligation of mutuality has in fact been breached, and they wish to discontinue the worker's entitlement to weekly payments, we recommend that:

- they ensure that they do so under the correct provision of the RTW Act (noting that Section 48(3) of the RTW provides multiple means by which a worker can breach the obligation of mutuality) to account for the conduct of the worker which the employer asserts has breached the obligation; and

- there is a solid basis for attempting to discontinue a worker's entitlement to weekly payments, meaning that adequate investigation should be carried out to ensure that the Compensating Authority is satisfied that the worker has in fact breached their obligation of mutuality.

"This expanded definition of mutuality also means that seriously injured workers with no capacity for work need to remain mindful of their employment obligations, such as maintaining confidentiality and not bringing their employer into disrepute."

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

John Walsh
Director
p: +61 8 **8124 1951**
john.walsh@dwft.au

Tiffany Walsh
Senior Associate
p: +61 8 **8124 1898**
tiffany.walsh@dwft.au

NEWS & VIEWS | **By Ben Duggan & Nicholas De Pasquale**

Workplace Criminalisation: Labor Governments Criminalise Workplace Manslaughter and Wage Theft

In separate moves that further criminalise conduct in the workplace, the State Government has introduced industrial manslaughter as a criminal offence into South Australian safety law while the Federal Government has made wage theft a criminal offence under the Fair Work laws.

Work Health and Safety (industrial manslaughter) Amendment

Locally, the Malinauskas State Government's introduction of industrial manslaughter is the most significant change to South Australia's Work Health and Safety laws since its inception in 2010.

In introducing the Bill that contained the proposed industrial manslaughter amendment to Parliament, the Minister for Industrial Relations, Kyam Maher, made clear the intent of the State Government:

> *"While tragic workplace incidents do occur from time to time, our industrial manslaughter laws recognise it is not an accident when people deliberately cut corners and place worker's lives at risk.*
>
> *It is a crime and it will be treated like one."*

The amendment to South Australia's Work Health and Safety laws introduces more severe penalties for Persons Controlling a Business or Undertaking (**PCBU**) or an officer of the PCBU who commits the new offence of industrial manslaughter.

A PCBU, or officer of a PCBU, commits the new offence where their breach of a safety duty that causes death arises from conduct that is either 'gross negligence' or 'reckless.'

'Gross negligence' is defined under the amendment as conduct that involves:

- such a great failing short of the standard of care that a reasonable person would exercise in the circumstances; and
- such a high risk of causing death or serious injury or illness of an individual, that the conduct merits criminal punishment for the offence.

"A new penalty regime under which PCBUs will face fines of up to $18 million, whilst individuals face a maximum prison sentence of 20 years, applies to the new offence of industrial manslaughter."

The term 'reckless' is defined by reference to a PCBU's[1] conduct, which involves their knowledge of the risk to an individual of death or serious injury being 'substantial' and 'unjustifiable' in the circumstances.

A new penalty regime under which PCBUs will face fines of up to $18 million, whilst individuals face a maximum prison sentence of 20 years, applies to the new offence of industrial manslaughter.

South Australia, introducing industrial manslaughter, joins a growing list of states and territories that have moved to criminalise industrial manslaughter, which now includes Western Australia, the Northern Territory, the Australian Capital Territory, Queensland and Victoria.

At this stage, the expected start date for the industrial manslaughter amendment to South Australia's Work Health and Safety laws is 1 July 2024.

Fair Work Closing the Loopholes Amendment

At the national level, the Albanese Government has successfully passed aspects of the Closing the

1 Or an officer of a PCBU.

Loopholes amendments to the Fair Work laws with the support of the Greens and Crossbench.

One key change was the introduction of wage theft as a criminal offence.

Wage theft has been on the national agenda for some time.

Pre-covid, pressure mounted to introduce wage theft when the punishment for Celebrity chef George Calombaris' business empire for underpaying nearly $8 million was revealed by the Fair Work Ombudsman (**FWO**).

The punishment, contained in an enforceable undertaking reached between Calombaris' business empire and the FWO, included a fine of $200,000 and Calombaris's agreement to do speaking engagements, was in the context of the systematic underpayment of workers considered 'light'.

In response, the then-Morrison Government sought to introduce wage theft into the Fair Work laws. However, despite general support for the move, this proposed amendment did not pass Parliament.

Some States, though not South Australia, did introduce wage theft as a criminal offence.

The new Federal wage theft provision will make it an offence for an employer to engage in deliberate conduct that results in an employee not being paid their correct entitlements under the safety net as contained in the National Employment Standards or a workplace instrument such as a Modern Award.

A new penalty regime under which employers face significantly increased penalties and directors prison sentences shall apply for contraventions of the new wage theft provisions.

At this stage, the expected start date for the wage theft amendment to the Federal Fair Work Act is 1 January 2025.

Employers should consider a review of their arrangements with their workforce to ensure that they are workplace compliant, including that they comply with the National Employment Standards and applicable Modern Awards (or Enterprise Agreements) in response to this development.

For employers who are unsure as to whether they are workplace compliant, advice should be sought as soon as practicable.

If you are an employer with some concerns and want to have a confidential chat about how our employment law experts can help, please get in touch with us.

FOR MORE INFORMATION OR ASSISTANCE PLEASE CONTACT:

Ben Duggan
Director
p: +61 8 **8124 1881**
ben.duggan@dwft.au

Nicholas De Pasquale
Associate
p: +61 8 **8124 1898**
nicholas.depasquale@dwft.au

SUITS OFF | **Staff Profile**

Helene's Legal Odyssey: Juggling Motherhood, Career, and a Passion for Justice

Helene Chryssidis Director

At the age of 17, Helene embarked on a journey into the legal realm, guided by the wisdom of her parents and teachers who recognised in her the qualities of a successful lawyer and inspired by her Yiayia (Grandma), whom she has an incredibly special bond with. While her initial inclination was towards a career as a paramedic, driven by her natural people skills and a desire to help others, a chance encounter with a paramedic who advised against it redirected her path. Little did she know this decision would lay the foundation for a successful career in law.

Inspiration and specialisation

Helene's early experiences as a law clerk sparked a profound passion for litigation and insolvency. The very elements that initially captivated her interest in becoming a paramedic aligned seamlessly with the dynamic challenges present in litigation and insolvency. This alignment fuelled her fervour to specialise in this area of law, where her vibrant personality, unwavering work ethic, and innate desire to assist others found a perfect match.

Throughout her tenure with global and national firms, Helene appreciated the supportive environments and the camaraderie of driven colleagues. Despite the positive experiences, her entrepreneurial spirit, a quest for autonomy, and a burning desire to play a leading role in her specialised field motivated her to make a significant career move. Joining DW Fox Tucker Lawyers provided her with the platform to shape her legal legacy.

Reflecting on her previous role in Perth with a global firm, Helene notes, "The people I worked with were supportive, kind, and driven. I learnt an incredible amount in my time there. Experiences that I still continue to carry with me to this day. However, with such a robust business background, I always knew that I wanted a certain level of autonomy to create something that I could truly be proud of. DW Fox Tucker Lawyers has granted me this opportunity, guiding and supporting me through my journey into a senior role."

Natural affinity for business

Growing up surrounded by business-minded individuals, Helene developed a natural affinity for commercial disputes. "From an extremely young age, I have always been surrounded by business. My parents, brother, and husband are business entrepreneurs. So, I am naturally drawn to business and commercial disputes. I understand the constant stresses, difficulties, and obstacles that business owners face and want to assist where I can."

Helene also respected the grind of running a small or medium business. "Witnessing their dedication to building and growing their businesses in a highly competitive and often volatile environment has been truly inspiring, making my involvement in their endeavours particularly fulfilling. Even today, I find immense satisfaction in this aspect of my work."

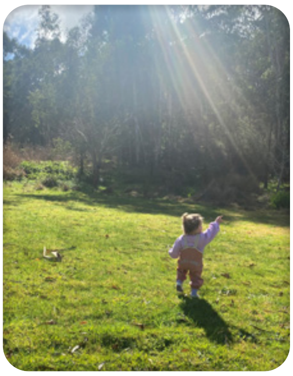
Juggling acts, overcoming obstacles and leading the charge

Helene acknowledges the difficulties of balancing motherhood and a legal career but sees it as an opportunity to pave the way for a brighter future. "I have experienced many challenges and obstacles in the past, both professionally and personally. In my experience, I have always tried to stay strong and work, work, work. There are many occasions when I struggle with the 'mum guilts'. It's hard. I'm not going to lie. But I am reminded by those around me that I am carving the way for a brighter future for not just my daughter but for other mums and their children alike. I am also incredibly lucky that I have a supportive circle around me. My husband has always and continues to support my ambitions to pursue my career in the legal profession. So do my incredible family and friends. Their support, the reminder of why I do it and my determination not to let down my clients or colleagues strengthen my resolve to keep working. I cherish the responsibility of being a female leader in business who can lead the charge for future generations by advocating for greater diversity and equality and challenging the status quo."

Personal passions, moments of serenity and chasing dreams

Helene's personal passions lie in the challenge of raising her daughter and advancing her career while contributing to the growth and work culture of the firm. She envisions a future where she continues to contribute to the legal landscape, challenging the status quo.

When she steps away from the legal world, Helene finds solace in family (which of course, includes her German Shepherd named Max), the beach, spending time with friends and outdoor activities. "We try hard to make time to get away as a family and spend some quality time together when we aren't distracted by work and the hustle and bustle of the world. Some of my fondest memories are our family holidays at the beach. I love seeing my daughter's pure happiness as she runs free at the beach and splashes in the water."



And if she wasn't working in law? "If I wasn't working in law, I would like to work as a doctor in an emergency department somewhere in Europe or work as a Human Rights Officer for the United Nations in Geneva, Switzerland. Because when I wasn't working, we could travel throughout Europe. If I was living a life of luxury, I would be living in Italy along the coastline, eating pasta every day and swimming."

Passion for justice

Shaped by her loving and hard-working family, Helene's legal journey is a testament to her love for diverse challenges, ever-changing legal landscapes, and the joy of helping others. Through the obstacles she's faced, both professionally and personally, she remains resilient, driven by a passion for justice that defines her career. Helene's story encapsulates the essence of a modern professional, navigating the complexities of law, motherhood, and personal fulfilment.

We're thrilled Helene chose our firm to support her journey, and we can't help but smile, sit back and enjoy the ride as she continues to carve her own path in the legal profession.

Helene Chryssidis
Director
p: +61 8 **8124 1847**
helene.chryssidis@dwft.au

Merry Christmas

From the DW Fox Tucker Lawyers team, we wish you a wonderful Christmas and New Year full of joyful celebrations. We look forward to helping you achieve your goals in 2024.

Joe De Ruvo	Narelle Lee
Managing Partner	CEO