LexisNexis™ Butterworths

Volume 20 Number 1

AUSTRALIAN INTELLECTUAL PROPERTY Law Bulletin

Print Post Approved 255003/00767

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Information contained in this newsletter is current as at May 2007

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Restraint of trade clauses in employment contracts

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This article revisits the controversy surrounding the enforceability of post-termination restraints to protect employers' interests in information that commonly does not quite qualify as a trade secret, such as client data. It also reviews some other legal avenues open to employers who wish to protect themselves against the misuse of trade secrets or 'trade connection' in the light of some comments made in *Maggbury Pty Ltd v Hafele Australia Pty Ltd,*[1] concerning the tension between freedom of contract and covenants in restraint of trade. It concludes that, even with a strict approach to the enforceability of covenants, employers still dispose of a panoply of alternative legal strategies to protect their legitimate interests.

Restraint of trade clauses

Covenants in restraint of trade are contrary to public policy and void (or 'illegal' or 'unenforceable'; as Williams JA said in *Cedar Hill Flowers & Foliage Pty Ltd v Spierenburg,*[2] these terms have been used interchangeably). Lord Macnaghten, in *Nordenfelt v Maxim Nordenfelt Guns and Ammunition Co,*[3] stressed that '[t]he public have an interest in every person's carrying on his trade freely: so has the individual'. Nonetheless, a restraint is enforceable if it is reasonable:

> ... in reference to the interests of the parties concerned and reasonable in reference to the interests of the public, so framed and so guarded as to afford adequate protection to the party in whose favour it is imposed, while at the same time it is in no way injurious to the public.'[4]

One line of subsequent cases establishes that a general but reasonable post-termination restraint is legitimate to protect an employer's trade secrets. Another line supports such restraints to protect so-called 'trade connection'. Courts interfere most readily in employment cases: '[T]here is obviously more freedom of contract between buyer and seller than between master and servant or between an employer and a person seeking employment'.[5]

Trade secrets

In *Littlewoods Organisation Ltd v Harris,*[6] Megaw LJ said:

> ... it is appropriate that a covenant, restricting an employee from full freedom of taking other employment when he leaves his existing employment, should be included in the contract of employment where there is a real danger that the employee will in the course of that employment have access to and gain information about matters which could fairly be regarded as trade secrets ...

However, seeking to protect information not adequately identified or properly classified as a trade secret by way of a general restraint amounts to an interference with legitimate competition, which is offensive to public policy. Thus, in *Triplex Safety Glass v Scorah,*[7] the restraint was:

> ... seeking to do what the law will not permit, because it is seeking to prevent [the former employee] using general information as distinguished from special information such as secret processes or the like which are the employer's property.

Whereas it is accepted that genuine trade secrets constitute a legitimate interest to protect, Goulding J's suggestion, in *Faccenda Chicken Ltd v Fowler,*[8] that a general restraint could be used to protect an employer's interests in information which '[s]o long as the employment continues, he cannot otherwise use or disclose ... without infidelity and therefore breach of contract' has been more controversial. It ignores the principled distinction between the contractual duty of fidelity as it applies to the use of all information during employment, and the equitable duty of confidence extending only to trade secrets, which persists after termination. And it encourages employers to hide their desire to prevent post-term competition under a thin veneer of legitimacy.

Goulding J's approach invited the Court of Appeal's disapproval:[9]

> We must therefore express our respectful disagreement with the passage in Goulding J's judgment that an employer can protect the use of information in his second category, even though it does not include either a trade secret or its equivalent, by means of a restrictive covenant.

Nonetheless, Kirby P and Samuels JA in the majority, in the significant NSW Court of Appeal decision in *Wright v Gasweld Pty Ltd*,[10] preferred Goulding J's view. Kirby P accepted that there was a category of information that was not a trade secret but was still sufficiently confidential to justify a restrictive covenant. Samuels JA agreed that information 'protected' by the duty of fidelity during employment, but not strictly speaking a trade secret, can legitimate a restrictive covenant after termination. This majority view has been influential, but not universally accepted in later Australian cases.

Client data and restraints of trade

One important category that might fall into Goulding J's second class is client information. That is information in relation to which an employee is under a duty of fidelity during employment. In *IF Asia Pacific Pty Ltd v Galbally,*[11] Dodds-Streeton J made the point that Goulding J in *Faccenda*:

> … considered the second category of information to include trade information such as customer lists, but he noted that employees had not been restrained from contacting customers whose names they could remember.

If such information has been deliberately memorised or amassed in documentary form during employment, a remedy for breach of the duty of fidelity is available after termination. However, information about clients, naturally remembered, has consistently been held to be free to be used after termination, and not to amount to a trade secret per se.

If, however, employers' interests in this kind of information are accepted as justifying a general restraint, the result is effectively to deny access to the kind of information that an employee cannot avoid coming across, and that any competitor can with little effort ascertain. This comes very close to offending against the longstanding principle that '[i]n the public interest an employer is not entitled to protect itself against mere competition by a former employee.'[12] It also tends to ignore what Anderson J in *Drake Personnel Ltd v Beddison*[13] said:

> It is obvious that a person cannot, by choosing to use the phrase 'trade secrets' in respect of something which the law does not regard as such, transform that something into a 'trade secret' which the law will guard.

In *IF Asia Pacific* Dodds-Streeton J dealt with the question in the following manner:

> … I do not consider that the information included in the Tracker and Knowledge Bank data bases constituted a trade secret. Access to the data bases was not confined to senior employees. There is no evidence that it was 'jealously guarded' or not readily made available to all employees. While effort was expended in compiling the databases, there is no evidence that significant skill would be required to replicate them. In all the circumstances, I consider that, at its highest, the Tracker data base, as a compendium, falls within the second category of Goulding J's classification. Constituents taken in isolation, such as names or addresses remembered by the employee, are not, in my opinion, protected following termination of employment, whether pursuant to general law or an express covenant.

Obviously, a compendium or compilation as such does not naturally linger in the memory of the employee; it will be in documentary form, or deliberately memorised, and as such an action for breach of the duty of fidelity will lie even after termination. Copyright may also afford a remedy if the employee has reproduced the compilation. A restraint of trade clause simply designed to protect a compendium as such is thus neither necessary nor reasonably required; and as Dodds-Streeton J rightly points out, individual items of information which an employee might naturally recall are not of an order of secrecy that justifies a restraint clause.

Trade connection

A separate line of cases recognises that another interest legitimately protected by a general restraint is 'personal knowledge of and influence over the customers of his employer'[14] (so-called 'trade connection'). Kitto J in *Lindner v Murdock's Garage*[15] accepted that a general restraint could be reasonable, if the geographical limitation imposed is:

> … such as will fairly approximate to a limitation expressed by reference to the employer's customers of whom the employee is likely to acquire special knowledge or with whom the employee is likely to be brought into a personal relation while in the employment …

This is not a matter of client data qualifying as trade secrets, but of protection against the misuse of an employee's knowledge of and influence over clients with which he or she dealt during employment. Whelan J in *Courtney Polymers v Deang*[16] held that trade connections generally were 'legitimate business interests, protectable by a restraint of trade clause, [which] is supported by the authorities'; and Doyle CJ in *Rentokil Pty Ltd v Lee*[17] observed that it was well established that 'the employer is not restricted to a restraint which prohibits solicitation of former customers or making use of confidential information'.

In other words, a general restraint on competition may be warranted if it is reasonable to serve the purpose of protecting trade connection. This will only be the case for employees who have actual contact with clients in the execution of their duties. For instance, in *Portal Software v Bodsworth,*[18] the restraint was held valid for the purpose of protecting trade secrets unrelated to client data, but not for the purpose of protection of so-called 'customer connection'. The employee was not a customer account executive, not 'the face of Portal [his employer]', but a single software solutions specialist who was not likely to influence the large telecommunications clients involved.

Furthermore, a geographical restraint may be reasonable to protect trade connection, if its effect coincides with a restraint on contacting the particular clients the employee would have dealt with by the time of severance, as was the case in *Murdock's Garage*. For instance, in *Bodsworth*, had the employee been an accounts executive dealing with all the telecommunications companies, of which there is a limited number, an Australia-wide geographical restraint to protect customer connection might have been reasonable. But that will not be the case where the geographical area is so framed as to prohibit the ex-employee from dealing both with clients who become known to him or her and with clients with whom he or she was not likely to have contact. An alternative of course is a non-solicitation clause — that is, an undertaking limited to not dealing with specified clients.

Given the trade connection cases, there seems to be even less of a need to accept the broad approach in *Gasweld* permitting a general restraint concerning information less than a trade secret. The trade connection interest in prohibiting immediate approaches to previous clients will perform the required role in relation to those clients the employee actually dealt with. For an employee who did not deal with clients directly but obtained client details in the course of backroom employment, the rule applies that they cannot deliberately memorise or copy or remove documented data without breaching their duty of fidelity.

Freedom of contract

In *Maggbury Pty Ltd v Hafele Australia Pty Ltd*[19] Callinan J (in the minority) stressed, in commenting on the restraint of trade doctrine as a whole, that we lived in times that differ from when the prohibition on restraints was first enunciated. His Honour considered that, now, parties who wanted to escape from a restraint freely entered into 'should be held to that bargain unless they can demonstrate that the restraints cause the public significant economic harm of an anti-competitive nature'.[20]

Admittedly *Maggbury* was not an employment case, but although his Honour did not turn his mind expressly to employment relationships, he did attack the continued application of the restraint of trade doctrine without any express reservations. He stressed that interfering with freedom of contract could be as detrimental to free trade as restrictive covenants, and he deplored the lack of clarity in the application of the doctrine. He attacked the credibility of parties who freely entered into a restraint, saying later that 'they did so relying on, or conscious of, the existence of the doctrine of restraint of trade in its current form to relieve them of their obligations of performance'.

However, as pointed out by Gleeson CJ, Gummow and Hayne JJ in the majority (at 168):

> The fact that the restraint can be said to have freely been bargained for by the parties to the contract provides no sufficient reason for concluding that the doctrine should not apply. All contractual restraints can be said to be of that character.

After all, in *Petrofina (Great Britain) Ltd v Martin*,[21] Diplock LJ accurately defined a contract in restraint of trade as one:

> … in which a party (the covenantor) agrees with any other party (the covenantee) to restrict his liberty in the future to carry on trade with *other persons not parties to the contract* in such manner as he chooses. [Emphasis added.]

For that very reason, there is little to be gained from encouraging covenants to be framed to protect information which is less than a trade secret, perhaps a fortiori in circumstances where the parties enter into the bargain with full knowledge and realisation of what it means to them. Rather than encourage such restraints by the vagueness and uncertainty to which Callinan J alludes and which, employers may calculate, ex-employees will not be willing to test in court, it would be preferable to have a clear rule that restricts covenants to the protection of trade secrets properly so called. Then it would be easier to balance freedom of contract with the public interest identified in *Herbert Morris*:[22]

> [E]very man shall be at liberty to work for himself, and shall not be at liberty to deprive himself or the State of his labour, skill, or talent, by any contract that he enters into.

Conclusion

As emerges from the above, it cannot be said that the employer does not possess sufficient legal means to protect legitimate interests. The employer has a considerable number of legal alternatives open to him or her, depending on the circumstances and the terms of the contract of employment, including actions:

- for breach of the contractual duty of fidelity extended post-term by fixing on deliberate acquisition of information during employment, whether by collecting documents or deliberate memorising;
- for breach of a confidentiality clause in an employment contract identifying particular confidential information;
- in breach of confidence in equity in relation to trade secrets that can be clearly identified after termination;
- for breach of a restraint of trade covenant framed so as to be reasonable to protect trade secrets;
- for breach of a restraint of trade covenant framed so as to be reasonable to protect 'trade connection';
- for breach of copyright in relation to information reduced to material form; and
- for breach of a non-solicitation clause. ●

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See page 12 for details of William van Caenegem's recent book.

Endnotes

1. (2002) 210 CLR 181.
2. [2003] 1 Qd R 482 at 493.
3. [1894] AC 535 at 565.
4. Above at 565.
5. Above note 3 per Lord MacNaghten at 566.
6. [1978] 1 All ER 1026 at 1038.
7. [1938] 55 RPC 21 at 28.
8. [1985] 1 All ER 724 at 731.
9. *Faccenda Chicken Ltd v Fowler* [1987] 1 Ch 117 at 137.
10. (1999) 22 NSWLR 317.
11. (2003) 59 IPR 43 at 81.
12. *Kone Elevators Pty Ltd v McNay* (1997) ATPR 41-564 at 43,833 per Sheller JA.
13. [1979] VR 13, as quoted in *IF Asia Pacific*, above note 11 at 80.
14. See *Herbert Morris Ltd v Saxelby* (1916) 1 AC 688 per Lord Parker at 709.
15. [1950] 83 CLR 628 at 655.
16. [2005] VSC 318; BC200505755 at [103]–[104].
17. (1995) 66 SASR 301 at 304.
18. [2005] NSWSC 1179; BC200510052.
19. (2001) 185 ALR 152.
20. Above at 178.
21. [1966] Ch 146 at 180.
22. Above note 14 at 701.

IP Casenotes

CONCRETE PTY LTD v PARRAMATTA DESIGN & DEVELOPMENT PTY LTD

(2006) 231 ALR 663

The High Court has considered whether a purchaser of land may construct a building using architectural plans that were prepared for a joint venture for ostensibly no fee for the purpose of obtaining a development consent.[1]

While no actual fee was charged by the architect to the joint venture, the High Court held that, because the architect was a party to the joint venture, he had also benefited from the sale of the land. Accordingly, as the joint venture enjoyed an implied licence to use the plans to build on the land, so too did the eventual purchaser of the land.

The High Court's judgment has not changed the usual principle that a licence to build from architectural plans can be implied, but has reiterated that it will depend on the circumstances of each case. Whether an architect has received fair remuneration for drawing up plans will be central to determining whether courts imply a licence. The Full Federal Court's decision in this case, and a more general article about copyright in architecture, have been discussed in previous editions of the *Intellectual Property Law Bulletin*.[2]

Background

In 1998, a joint venture, consisting of Landmark Pty Ltd and Toyama Pty Ltd, purchased land for $560,000 in Nelson Bay, NSW, and obtained planning approval to develop eight units. Soon after discovering that a neighbouring property would be allowed to develop 16 units, the joint venture decided to apply to the local council for a 14-unit development. To keep the joint venture on foot, the architect, Mr Fares, the principal of Parramatta Design & Developments Pty Ltd (PDD) and a director of Landmark, did not charge fees to the joint venture for preparing the plans.

The local council granted a development consent for 14 units for five years from 10 May 2000. However, Landmark and Toyama did not proceed with the development because they disagreed about who would build the units.

After an attempted sale fell through in June 2002 because of the 'alleged unprofessional behaviour of Mr Barrak' (a joint director of Landmark with Mr Fares), Toyama successfully brought an application to the NSW Supreme Court for the appointment of trustees to sell the Nelson Bay site.[3] On 7 August 2003, the land was sold to Concrete Pty Ltd for $2.76 million. Critically, the contract of sale stated that the vendors did not warrant that a purchaser might use the plans that accompanied the development consent.

Concrete wanted to build the units from the existing plans, in accordance with the development consent, but PDD refused to grant its consent. A dispute arose between Concrete and PDD after PDD's lawyers had sent two letters to Concrete warning that if it built from the plans it would breach PDD's copyright and 'does so at its own risk'.[4] Ultimately, Concrete commenced an action against PDD alleging that it was the subject of unjustified threats under s 202 of the *Copyright Act 1968* (Cth). PDD cross-claimed for copyright infringement.

At trial, Conti J found in favour of Concrete and dismissed PDD's cross-claim. PDD successfully appealed to the Full Federal Court. While the Full Court found that PDD had prepared the plans purely for the purpose of sustaining the joint venture, it held that this was not sufficient consideration for Concrete to enjoy an implied licence, because PDD had not been paid a reasonable fee for preparing the plans. The Full Court also held that an allegation of apprehended bias against Conti J was made out.

High Court's reasons

The High Court unanimously upheld Concrete's appeal. Four separate judgments were delivered by the High Court, although Gummow ACJ agreed generally with the reasons of Callinan J, and Kirby and Crennan JJ, in relation to the copyright issue. In their joint judgment, Kirby and Crennan JJ held that an implied licence to build from architectural plans prepared for a particular site arose where an architect had been paid a professional fee for preparing the plans for that purpose.[5]

While the Full Federal Court had accepted this principle, it found that, because PDD had not been paid a fee for preparing plans for the joint venture, there was 'no reason to imply a term that this licence could be assigned ... to ... a purchaser of the Nelson Bay site'.[6]

By contrast, the High Court took a broader view as to who benefited from the joint venture in determining whether PDD had been paid a professional fee for preparing the plans. Callinan J believed that the Full Federal Court had erred in focusing on the 'necessity or otherwise of implying a term', and had overlooked the joint venture arrangement, including Mr Fares's role as a participant in the joint venture.[7] Similarly, Hayne J found that PDD had 'joined in a common business enterprise' with Toyama and Landmark, and agreed with Gummow ACJ and Callinan J that the joint venture relationship was one of 'mutual trust and confidence' that possessed 'fiduciary characteristics'.[8]

In effect, Gummow ACJ, Callinan J and Hayne J agreed with Kirby and Crennan JJ that the:

> ... clear purpose of the joint venture was to purchase the land, obtain a development consent ... build units ... then sell the units and share the profits ... [so that] the question of whether there was an implied licence to use the drawings falls to be decided at the time when the drawings were prepared at the request of the owners of the land and not at any later time.[9]

Kirby and Crennan JJ also stated that:

> ... in the absence of any reservation of copyright in the plans and drawings ... once the development consent has been granted the implied licence ... to the owners must be irrevocable, because one of the purposes for which the plans and drawings were prepared has then been achieved.[10]

It followed that an 'owner who sells the land, with the benefit of the development consent, must be taken to be passing on the benefit of the implied consent it holds to the purchaser'.[11]

However, Kirby and Crennan JJ were careful to distinguish this situation from one where a licence was not implied because an architect had been paid only a nominal fee for preparing plans for the purpose of obtaining a planning approval, and expressly barred their reproduction.[12] Gummow ACJ and Hayne J found it troubling that PDD denied that it had consented to use of the plans by Concrete, as this would clearly conflict with the purposes of the joint venture, particularly where neither the joint venture nor the architect had opposed the sale of land that benefited from having a development consent.[13]

In fact, Gummow ACJ and Hayne J found that Concrete had a licence from PDD under s 15 of the *Copyright Act*, which states that:[14]

> ... an act shall be deemed to have been done with the licence of the owner of a copyright if the doing of the act was authorized by a licence binding the owner of the copyright.

Interestingly, while Kirby and Crennan JJ thought that:

> ... Landmark's conduct in agreeing to the sale of the land, with the benefit of the development consent, precludes the architect from seeking to derogate from the grant of an implied licence to [Concrete] by assertion of [PDD's] copyright in the drawings ...

Gummow ACJ reserved the right to consider further whether the UK doctrine relating to non-derogation from grant applied to copyright licensing in Australia.[15]

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Apprehended bias

The High Court dismissed the finding that there was apprehended bias and held that the Full Federal Court had erred in making its orders because a finding of apprehended bias would have required it to order a retrial.

Comment

'Cui bono' is the Latin phrase meaning 'for whose benefit?' It is a phrase with particular application in this case, as it seems that the High Court has taken a broader view of who benefited from the sale of the Nelson Bay site than did the Full Federal Court. That the architect who benefited from the sale of land at Nelson Bay was also a director of one of the joint venture partners was crucial in allowing the High Court to rule in Concrete's favour.

Limitations need to be expressed

In this case, an architect who was a co-owner of land prepared plans for obtaining a development consent for himself and his co-owners. Unless such architects expressly prohibit their plans from being used to build on the land, their co-owners, and any subsequent purchaser, will enjoy an implied licence to build from the plans. Therefore, architects who want to limit the scope of the implied licence to use their plans need to do so expressly in their contract with the commissioner of those plans.

A question worth asking is: 'What would have been the outcome if the architect had not been involved with the joint venture and had not benefited from the sale of Nelson Bay site?' It is likely that the architect would have been able to restrain the purchaser from using the plans.

From the perspective of purchasers and developers of land, this decision reaffirms the principle that a licence will be implied to build from plans where architects have been paid a professional fee to develop those plans for the purposes of obtaining planning approval. ●

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Endnotes

1. *Concrete Pty Ltd v Parramatta Design & Developments Pty* Ltd (2006) 231 ALR 663.
2. Gleeson P 'IP casenote: *Parramatta Design & Developments Pty Ltd v Concrete Pty Ltd*' (2005) 18(6) *IPLB* 91; Alstergren W 'Copyright in architecture — recent developments' (2004) 17(4) *IPLB* 63.
3. Above note 1 at 671.
4. Above note 1 at 673.
5. Above note 1 at 679, citing *Beck v Montana Constructions Pty Ltd* [1964–65] NSWR 229, and at 707, applying *Beck v Montana Constructions Pty Ltd* [1964–65] NSWR 229 at 233–34.
6. *Parramatta Design & Developments Pty Ltd v Concrete Pty Ltd* (2005) 219 ALR 373 at 380.
7. Above note 1 at 704.
8. Above note 1 at 692, 668 and 704.
9. Above note 1 at 668, 692, 707 and 685.
10. Above note 1 at 686.
11. Above note 1 at 682, citing with approval Lord Denning in *Blair v Osborne & Tomkins* [1971] 2 QB 78 at 85.
12. Above note 1 at 682, citing *Stovin-Bradford v Volpoint Properties Ltd* [1971] Ch 1007.
13. Above note 1 at 677, 668 and 692.
14. Above note 1 per Gummow ACJ at 668, and per Hayne J at 692.
15. Above note 1 at 687 per Kirby and Crennan JJ, and 669 per Gummow ACJ.

PFIZER PRODUCTS INC v KARAM

(2006) 70 IPR 599

In this case, Joseph Karam (Karam) applied to register the word marks HERBAGRA, HERB AGRA and HERB-AGRA as a trade mark. The specification covered goods in class 5 described as herbal medicines used to aid health, vitality and sexuality. The application was accepted for registration.

Pfizer Products Inc (Pfizer), the registered proprietor of a number of marks comprised of or including the word VIAGRA in respect of goods in class 5, opposed registration of Karam's mark. Pfizer relied on the grounds of opposition under ss 42, 43, 44 and 60 of the *Trade Marks Act 1995* (Cth) (the Act).

The Hearing Officer (a delegate of the Registrar of Trade Marks) found that Pfizer had not made out any of its grounds of opposition. Pfizer appealed to the Federal Court.

Decision

Standard of proof

Before considering the substantive grounds of opposition, Gyles J first considered the standard of proof to which a ground of opposition is to be made out in trade mark opposition proceedings.

Under s 55 of the Act, an opponent bears the onus of proof in establishing a ground of opposition. Karam argued that s 55 should be read as meaning that an opposition should be upheld only if the court was satisfied that the trade mark *clearly* should not be registered. Pfizer argued that a ground of opposition was to be established as any other matter is to be established in a civil proceeding of an administrative character.

In support of its submission, Karam relied on a line of cases which were, it was argued, authority for the proposition that a special high onus must be satisfied by the opponent in opposition proceedings. Karam relied on the Full Federal Court decision of *Lomas v Winton Shire Council* (2003) AIPC 91-839. In *Lomas*, the court drew a parallel with the scheme of appeals in opposition proceedings under the *Patents Act 1990* (Cth), and found that the question for the court was whether the trade mark clearly should not be registered. Only if the court was so satisfied should it decide to uphold an appeal by an unsuccessful opponent.

His Honour also considered the decision of *F Hoffman-La Roche AG v New England Biolabs Inc* (2000) 99 FCR 56, where Emmett J held that a court should, before it upheld an opposition to the grant of a patent, clearly be satisfied that the patent, if granted, would not be valid. This reasoning was subsequently applied to trade mark opposition proceedings in *Torpedoes Sportswear Pty Ltd v Thorpedo Enterprises Pty Ltd* (2003) 132 FCR 326.

After reviewing subsequent cases in which the Federal Court considered the applicability of the standard of proof applied in *Lomas* and *Torpedoes*, his Honour concluded that there was no binding Full Court authority for the proposition that a higher standard of proof applied in trade marks opposition proceedings. His Honour found that the subsequent cases that considered *Lomas* and *Torpedoes* did not actually apply a higher standard of proof, despite the court in those cases concluding a higher proof should be applied.

Justice Gyles also considered the case of *Registrar of Trade Marks v Woolworths Ltd* (1999) 93 FCR 365, where the Full Court of the Federal Court examined the provisions of the Act and concluded that, in relation to s 33 appeals from the Registrar relating to trade mark applications, '[t]he decision to reject an application regularly made must now be based upon positive satisfaction that a ground for rejecting it is made out'. His Honour found that this decision did not suggest that a special high onus needed to be satisfied.

Justice Gyles ultimately concluded that the fundamental difficulty with Karam's argument was its inconsistency with the language of s 55 of the Act. His Honour found that there was no basis on which s 55 could be read as importing a requirement that a ground of opposition be clearly established, particularly where doing so would change the practical operation of the section by imposing a special high onus of proof.

Section 60

Pfizer alleged that its mark had acquired a reputation in Australia and that use of Karam's mark would be likely to deceive or cause confusion because Karam's mark was deceptively similar to its own. After reviewing Pfizer's evidence as to reputation, Gyles J agreed with the delegate's finding that Pfizer's VIAGRA marks were very well known in Australia and enjoyed a considerable reputation.

Karam did not dispute the delegate's finding in relation to reputation. However, before the Federal Court, Karam argued that Pfizer's reputation related only to a particular medical treatment for a particular medical condition available only on prescription from pharmacies. Pfizer argued that the reputation it had acquired by use of its VIAGRA marks was not so limited, but that it had gained a wider reputation as being associated with sexual health and performance generally.

His Honour found that the evidence warranted the conclusion that Pfizer's VIAGRA mark was 'associated with a substance taken orally for enhancement of penile erection for the improvement of sexual performance as well as curing of penile dysfunction'. His Honour did not limit the reputation of the VIAGRA mark to products only available on prescription from pharmacies.

Karam also argued that, given the visual differences in the marks, and the nature of the relevant consumer, there would be no reasonable likelihood of a substantial number of members of the relevant class of consumers being confused in the relevant sense. Karam submitted that VIAGRA was a prescription drug and would therefore be sought out by men seeking a medical solution to their problem, while HERBAGRA was likely to be purchased by men who were interested in alternative remedies and were seeking either a 'natural' cure for their erectile problem or a non-pharmaceutical enhancement of their sexual performance.

In concluding that a substantial number of members of the public would identify herbal medicines used to aid health, vitality and sexuality marketed under the name HERBAGRA to be a herbal version of VIAGRA, his Honour noted that Karam's submissions underestimated the impact of aural similarity between the two marks by virtue of the suffix -AGRA.

His Honour further held that the fame of VIAGRA would cause HERBAGRA to 'strike a chord with the consumer as to a link with VIAGRA'.

Karam further submitted that some people would see HERBAGRA as a cheeky take-off of VIAGRA, relying on *McIlhenny Co v Blue Yonder Holdings Pty Ltd formerly t/as Tabasco Design* (1997) 149 ALR 496, a misleading/deceptive conduct and passing off case. After reviewing this case, his Honour concluded that the question that arose in relation to misleading and deceptive conduct contrary to s 52 of the *Trade Practices Act 1974* (Cth), or passing off, was different from that arising under s 60. While some members of the public would understand that Karam was endeavouring to appropriate for itself and trade off part of VIAGRA's reputation, such persons would not be representative of the public at large.

His Honour was thus satisfied that, because of VIAGRA's reputation, use of HERBAGRA would be likely to deceive or cause confusion.

Section 44

Pfizer also argued that Karam's mark was substantially identical with or deceptively similar to its VIAGRA mark registered in respect of similar goods.

Having regard to his analysis of deceptive similarity in relation to s 60, his Honour found that, if the reputation of the VIAGRA mark was to be taken into account for the purposes of s 44, then he would conclude that the HERBAGRA mark was deceptively similar to VIAGRA because it so nearly resembled VIAGRA that it was likely to deceive or cause confusion. In his Honour's opinion, VIAGRA's reputation increased the chance of confusion or deception. However, his Honour was not satisfied that reputation ought to be taken into account for the purposes of an opposition based on s 44.

His Honour concluded that the lawful use in the future of each mark across the range of goods for which it was being registered must be compared, rather than past use. While there was judicial support for use of reputation in connection with infringement, his Honour found that it was not clear that this should be imported into s 44.

Reputation aside, his Honour found that the only similarity between Pfizer's mark and Karam's mark was the suffix -AGRA, which had no relevant meaning or connotation. His Honour concluded that, on the evidence before him, it was not uncommon to have goods sold in chemist shops with common prefixes or suffixes.

In his Honour's opinion, if reputation were not taken into account, he was not satisfied that Pfizer's mark would be deceptively similar to VIAGRA.

Section 43

Last, Pfizer argued that Karam's trade mark should not be registered because the suffix -AGRA would cause confusion as to whether:

- the HERBAGRA product was out of the same stable as VIAGRA;
- the active ingredient in the HERBAGRA product was that in VIAGRA or was from the same family of ingredients; or
- the HERBAGRA product was equivalent to VIAGRA in terms of its effects, or achieved similar or related effects.

After referring to the brief pedigree of s 43, his Honour considered the nature of s 43 and the meaning of 'connotation'. He found that connotation was a secondary meaning implied by the mark and that the likelihood of deception or confusion required by s 43 must flow from the secondary meaning inherent in the mark itself.

In his Honour's opinion, there was no relevant secondary meaning connoted by the mark HERBAGRA.

Conclusion

His Honour allowed the appeal on the ground that Pfizer had established a ground of opposition under s 60 of the Act. ●

Timothy Creek, Lawyer,
Blake Dawson Waldron, Melbourne.

Despite his best efforts, the trial judge in the HERBAGRA case fails to weed out all the double entendres in his decision

ASTRAZENECA PTY LTD v GLAXOSMITHKLINE AUSTRALIA PTY LTD

(2006) ASAL 55–155; ATPR 42–106

The main issue in this case was whether any or all of some promotional materials, comprising two flyers and two advertisements (Flyers 1 and 2, and Advertisements 1 and 2, respectively) published by GlaxoSmithKline (GSK), were misleading or deceptive — or likely to mislead or deceive — under s 52(1) of the *Trade Practices Act 1974* (Cth).

The materials in question promoted the prescription by doctors of GSK's drug, Seretide, which is used to treat asthma. Seretide uses a combination of two different drugs, Salmeterol and Fluticasone. All of the materials referred to statistical research carried out in a US study (the GOAL study) on the effectiveness of the drugs used in Seretide.

Content of the materials

Flyer 1 was distributed to 14,000 general practitioners throughout Australia; Flyer 2 was a handout provided to doctors and health professionals by medical detailers representing GSK; Advertisements 1 and 2 were published in the *Australian Doctor* magazine.

The materials referred to Seretide as 'Seretide Total Control'. Following the words 'Seretide Total Control', an asterisk directed the reader to an elucidator which explained:

> The GOAL study examined whether guideline defined asthma control could be achieved in 3416 patients with uncontrolled asthma. 41% of patients achieved total control and 71% achieved well controlled asthma with Seretide for periods of 7 out of 8 weeks over the 12 month study. Total control was defined as experiencing none of the 7 listed symptoms for at least 7 out of 8 weeks.

This wording was used in the footnotes of both the advertisements and Flyer 2; however, Flyer 1 did not contain the last sentence defining 'total control'. Instead, it defined 'total control' as follows:

> 'What is Seretide Total Control?':
> - freedom from asthma symptoms,
> - freedom from exacerbations,
> - freedom form night-time awakenings,
> - freedom from reliever use (4 out of 7 criteria defining Total Control based on the GOAL study, sustained for 7 out of 8 weeks).

All of the materials contained a further endorsement, stating '[p]lease review product information before prescribing'.

AstraZeneca's allegations under s 52

AstraZeneca alleged that GSK made the following misleading/deceptive representations:

(a) that all or virtually all asthma patients would achieve 100 per cent control or total control of all asthma symptoms by using Seretide;

(b) alternatively, that a majority (more than 50 per cent) of all asthma patients would achieve 100 per cent (or total) control of all asthma symptoms by using Seretide;

(c) alternatively, that a sufficiently high proportion of all asthma patients would achieve 100 per cent (or total) control of all asthma symptoms by using Seretide to

All of the materials contained a further endorsement, stating '[p]lease review product information before prescribing'.

justify the use of the brand slogan 'Seretide Total Control';

(d) that 41 per cent of all patients taking part in the GOAL study achieved 100 per cent control of all asthma symptoms by using Seretide;

(e) alternatively, that 41 per cent of all patients taking part in the GOAL study achieved 'total control' (as defined in the Seretide advertisements) of all asthma symptoms by using Seretide;

(f) that 71 per cent of all patients taking part in the GOAL study achieved 'well controlled asthma' (as defined in the Seretide advertisements) of all asthma symptoms by using Seretide; and

(g) that the patient results of the GOAL study would be achieved or would likely be achieved in clinical practice.

Judicial findings

The court upheld the primary judgment, holding that GSK did not engage in misleading or deceptive conduct in any of its flyers or advertisements, as viewed from the perspective of an ordinary or reasonable member of the community of general practitioners in Australia.

Allegations (a) to (c)

Allegations (a) to (c) by AstraZeneca were not made out in the terms alleged simply by GSK using the words 'Seretide Total Control'. The court found that this was merely an alternative brand name adopted by GSK for the drug Seretide. In any case, the court found that the elucidators in the materials, which appeared in an easy-to-read sized typeface, did not allow such inferences to be drawn.

Allegations (d) to (f)

The materials all represented that 41 per cent of all patients taking part in the GOAL study achieved 'total control' of all asthma symptoms by using Seretide, as that term was defined in each flyer and advertisement. As AstraZeneca conceded this point, the court found such a representation was not misleading or deceptive. However, the court noted that, although Flyer 1 defined 'total control' slightly differently to Flyer 2 and the advertisements (Flyer 1 only listed four of the seven criteria in the GOAL study definition of 'total control'), the court did not find that Flyer 1 was any more misleading for this reason.

Similarly, each of the materials represented that 71 per cent of all patients taking part in the GOAL study achieved 'well controlled' asthma by using Seretide, for periods of seven out of eight weeks over the 12-month study. Once again, this was not in breach of s 52(1) since AstraZeneca also conceded this representation.

Allegation (g)

AstraZeneca had argued that the references to the GOAL study in the materials were misleading as they failed to mention that the GOAL study did not include patients with significant concomitant diseases, smokers or patients under 12 years old. However, the court found that this was not misleading as the materials did not claim that the GOAL study patients were representative of the asthma suffering community at large. In fact, the elucidators clearly indicated that the study was based upon observations of '3416 patients with uncontrolled asthma' and was no more specific than this.

Conclusion

On the issue of trade marks and branding, this case shows that clear elucidators explaining the premise of a claim could help avoid liability for a s 52 claim even when used with a term such as 'Seretide Total Control', especially where the term is regarded as an alternative brand name adopted by GSK. ●

Georgia Foster, Lawyer,
Minter Ellison, Sydney.

Trade marks goods and services pick list: making it easier

Improvements have been made to the online trade mark filing systems on IP Australia's website, providing a more extensive and searchable database of goods and services for customers.

The online filing systems for both standard trade mark applications and the Assisted Filing Service allow users to select from a pick list of goods or services relating to their trade mark. Improvements now allow users to search for classes of goods or services containing particular terms by means of an easy-to-use search facility within the forms. Using simple search criteria, such as 'clothing', the user is presented with a results page and is able to choose the most appropriate classes before continuing through the filing process.

The official goods and services pick list is an electronic tool designed to help identify the classes of goods or services to which a trade mark applies. The pick list is an optional component of the online filing facility. Using the pick list when making an application will automatically classify the goods and services so that they are in the correct class at the time of filing. Filing fees will be automatically calculated and there won't be any classification errors preventing acceptance of a trade mark application — though there may be other substantive issues raised. Using the goods and services pick list also saves money, as a discount applies to applications filed using the pick list facility. ●

IP Australia.

new book

William van Caenegem
Intellectual Property Law and Innovation
Cambridge University Press
APN: 9780521837576;
ISBN: 052183757X; Price: $99

According to the author, one of the principal innovations of this newly released book is to unite all the areas of IP law that concern industrial innovation, as opposed to a 'traditional regime-based' approach. Included are both functional innovation and innovation in appearance or design.

Each chapter covers aspects of policy, theory and core legal issues focusing on relevant IP law such as patents, trade secrets and designs. The book also addresses copyright in relation to industry, such as artistic works (engineering drawings and so on) and computer programs, as opposed to arts and entertainment related areas. Goodwill and reputation are considered in the context of the trademarking of product shapes.

The focus of the book is on substantive rather than procedural issues — for example, what can be patented, who owns an invention and the construction of patent claims (canvassing the latest cases along the way). The book covers these legal issues in the context of an assessment of IP legal trends relevant to innovation, intellectual property rights and knowledge diffusion.

The book is intended to appeal both to students and legal practitioners, by its focus on some topical aspects of IP law. For instance, it analyses in some detail subjects such as infringement of artistic works copyright in manufacturing, construction of patent claims, breach of confidence in the employment context, and the registration and infringement of trade marks for the shape of goods. At the same time, people in industry with some background in IP and innovation should find the book of interest as well, as it unites all areas of IP law of particular relevance to them. It also considers how IP law fits into the broader innovation policy framework. ●

Sharon Givoni, General Editor.

PUBLISHING EDITOR: Bridget Brooklyn BA(Hons), PhD **MANAGING EDITOR: Bruce Mills PRODUCTION: Christian Harimanow**
SUBSCRIPTION INCLUDES: 10 per year plus binder SYDNEY OFFICE: Locked Bag 2222, Chatswood Delivery Centre NSW 2067 Australia
TELEPHONE: (02) 9422 2222 FACSIMILE: (02) 9422 2404 DX 29590 Chatswood www.lexisnexis.com.au bridget.brooklyn@lexisnexis.com.au

ISSN 1035–1353 Print Post Approved PP 255003/00767 Cite as (2007) 20(1) *IPLB*