NEWSLETTER

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Corporate & Commercial Newsletter

Welcome to our August Corporate & Commercial newsletter

In this edition we have included news on:

- *Stellard Pty Ltd & Anor v North Queensland Fuel Pty Ltd*, a recent decision that highlights the importance of understanding how your actions are being interpreted by the other party when signing a contract
- *Cantarella Bros Pty Ltd v Modena Trading Pty Ltd*, a landmark High Court decision that has significant trade mark implications for goods bearing foreign language words
- a High Court decision that saw Lend Lease lose a landmark stamp duty case redefining what constitutes 'consideration' and targets property developers
- *Androvitsaneas v Members First Broker Network* which highlights the need for parties to a contract to be aware of their obligations

Please do not hesitate to contact us if you would like more information on any topic, whether covered in this newsletter or not. We hope you find the newsletter informative and useful.

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Actions speak louder than words

Case summary: *Stellard Pty Ltd & Anor v North Queensland Fuel Pty Ltd* [2015] QSC 119

The Supreme Court of Queensland recently decided that negotiations involving the inspection of a property and subsequent emails constitute a legally binding agreement. Despite the vendor believing the contract to be only final upon execution, the Supreme Court held that when looking at all the surrounding circumstances, the reasonable person would believe that a contract had been formed between the vendor and purchaser.

The facts

In October 2014, North Queensland Fuel Pty Ltd (**NQF**) listed a roadhouse for sale. On 17 October, Mr Hurry inspected the property.

Mr Hurry identified himself and his expression in United Petroleum (**UP**) purchasing the roadhouse. Mr Beattie of NQF provided Mr Hurry with a number of documents and financial records.

Thereafter, UP and NQF communicated via telephone and email on multiple occasions, and NQF provided further documents to assist with due diligence. A draft contract was sent between the parties with agreed terms. On 31 October 2014, NQF accepted the offer from UP "**subject to execution of the Contract provided** (with agreed amendments)".

On 3 November 2014, UP amended the contract by removing a special condition concerning the guarantee and inserting two new conditions relating to due diligence and environmental conditions.

NQF informed UP on 7 November 2014 that they would no longer accept the contract due to the changes. NQF subsequently informed UP that they had entered into another contract for the sale of the property. In fact, NQF had played one purchaser off against another in order to increase the purchase price.

The plaintiffs pleaded that the email exchange on 31 October 2014 constituted a valid and binding agreement. The defendant denied that any contract was formed.

Decision

Martin J cited the unanimous High Court decision in *Toll (FGCT) Pty Ltd v Alphapharm Pty Ltd* (2004) 219 CLR 165:

> *"What matters is what each party by words and conduct would have led a reasonable person in the position of the other party to believe.*
>
> *The meaning of the terms of a contractual document is to be determined by what a reasonable person would have understood them to mean. That, normally, requires consideration not only of the text, but also of the surrounding circumstances known to the parties, and the purpose and object of the transaction."*

The Court held that in "*circumstances where parties have engaged in negotiation by email and, in particular, where an offer is made by email, then it is open to the court to infer that consent has been given by conduct of the other party*".

When the defendant sent the "acceptance email" 45 minutes after the plaintiffs' "offer email" the Court believed it was "*consistent with the position that a contract had been formed*".

In the context of the negotiations, the email exchange considered in light of the conversations between Mr Beattie and Mr Hurry suggest that the parties were content to be bound immediately and exclusively by the terms which they had already agreed upon whilst expecting to finalise the terms of a final agreement.

Implications

When making any agreement it is important to understand how your actions are being interpreted by the other party. It is easy to come away from an event with a different perspective to someone else. It is important to make sure that when you are signing any contract that you conduct yourself in a clear and coherent manner. It is prudent to make sure that you clarify anything you believe to be unclear, vague or ambiguous before making what could be construed as a binding commitment.

Author: **Saul Finberg**
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Vittoria Coffee claims victory in trade mark battle over 'ORO' and 'CINQUE STELLE' brands

The High Court has ruled on the enforceability of foreign language trade marks in its landmark decision in *Cantarella Bros Pty Ltd v Modena Trading Pty Ltd* [2014] HCA 48. The decision is the culmination of a dispute between the parties which commenced in February 2013 when Cantarella Bros (which trades as Vittoria Coffee) took exception to Modena Trading's distribution of imported coffee products featuring the Italian words 'Oro' and 'Cinque Stelle' as well as its use of those words in various marketing material. The English translation of the words 'Oro' and 'Cinque Stelle' is 'Gold' and 'Five Stars' respectively.

The decision is a double edge sword for brand owners. There is a potential benefit arising from the expanded category of potentially

'descriptive' trade marks which may be registered by the Trade Marks Office (and therefore, enforceable against third parties). In general, trade marks which describe the nature, quality or intended purpose of the claimed goods or services are not registrable. The decision gives brand owners greater scope to register a foreign language trade mark which has an English translation that describes, evokes a feeling, or creates an association between their product or service and a desirable characteristic or quality (eg. 'A1', 'premium' etc.). However, this 'broadening of the field' results in a natural retraction of brand owners' 'freedom to use' certain foreign language words which have a descriptive English meaning which may be the subject of a registered trade mark, on or in connection with their goods or services. There is also an additional infringement risk for businesses distributing or selling imported products in Australia.

The dispute

Cantarella Bros is the owner of four Australian registered trade marks for ORO and CINQUE STELLE in respect of coffee and coffee-related products (**Cantarella Bros Trade Marks**). Cantarella Bros imports raw coffee beans, which are then processed, packaged and sold in Australia. Modena Trading began importing coffee from Molinari (an Italian company) into Australia in 1996 under the trade mark CAFFE MOLINARI. The words 'ORO' and 'CINQUE STELLE' also appeared on the packaging of its coffee products. Cantarella Bros claimed that Modena Trading infringed its registered trade mark under the *Trade Marks Act 1995* (Cth) and engaged in misleading or deceptive conduct and passing off, in contravention of the Australian Consumer Law.

In response, Modena Trading claimed that:

- it was only using the words 'ORO' or 'CINQUE STELLE' to describe the quality of its coffee products and not as trade marks given the concurrent use of the trade mark CAFFE MOLINARI on its products; and
- the Cantarella Bros Trade Marks were descriptive of Cantarella's coffee products and were therefore not inherently adapted to distinguish Cantarella Bros' products from the products of other traders and should be removed from the Trade Marks Register.

The High Court's decision

The High Court found the Cantarella Bros Trade Marks were inherently adapted to distinguish Cantarella Bros' coffee products from the coffee products of other traders. It also held that Modena Trading was using the words 'ORO' and 'CINQUE STELLE' as trade marks and therefore had infringed the Cantarella Bros Trade Marks. The High Court made the following observations:

- Coffee was deemed to be a 'familiar beverage' consumed by a broad cross-section of the Australian population. Accordingly, whether the 'ordinary signification' of each of the words 'ORO' and 'CINQUE STELLE' was the English translation of those words, was to be determined with reference to the probability that ordinary English speaking persons in Australia would understand the words as meaning 'Gold' and 'Five Stars' respectively.
- Having concluded that the relevant consumer group would not understand the words 'ORO' and 'CINQUE STELLE' as meaning 'GOLD' and 'FIVE STARS', the court determined that the Italian words 'ORO' and 'CINQUE STELLE' did not covey a meaning sufficiently tangible to be a direct reference to the character or quality of the goods in Australia.

Implications for brand owners

The decision is particularly significant for owners of international brands, any person seeking to register a foreign language trade mark in Australia and importers and distributors of goods bearing foreign language words which may potentially operate as trade marks.

When can a business register a foreign language trade mark?

The High Court made it clear that it is not what the foreign words mean when they are translated into English that is of primary importance when determining registrability of the foreign language trade mark (although, this may be relevant). The test for determining registrability of a foreign language trade mark is now two-fold:

(a) What does the trade mark signify to the relevant consumer group in Australia?

(b) Would ordinary traders need to use the trade mark (in its foreign language form) in the ordinary course of business in Australia?

The High Court emphasised that the 'ordinary signification' of a trade mark is fluid and there is an inherent risk that a trade mark which is registrable in 2014 may acquire a descriptive signification to consumers in the future. In other words, a trade mark's

'descriptiveness' (and therefore, lack of registrability) may develop over time and give rise to a ground for cancellation of the trade mark from the time that the trade mark is deemed to be incapable of distinguishing the owner's goods or services from the goods or services of other traders.

Additional infringement risk

Businesses that import and distribute products bearing foreign language should be aware of the additional infringement risk created by this decision. Businesses should ensure that any foreign language words appearing on product packaging or brand 'get up' do not operate as trade marks. If there is doubt regarding whether a foreign language word operates as a trade mark, it may be advisable to include any potential foreign language trade marks in the business' 'freedom to use' clearance searches.

Author: **Lesley Naik**
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Lend Lease loses landmark stamp duty case that redefines what constitutes 'consideration' and targets property developers

Introduction

The High Court has resoundingly determined that the 'consideration' for the transfer of dutiable property may be calculated by reference to not only payments set out in the applicable contract for the sale of land but also to other payments, financial accommodation, goods or services given to the vendor under a development agreement. This means that a contract for the sale of land and a related development agreement can be deemed to be a single, integrated and individual transaction resulting in a substantial increase in the dutiable value of transactions for the sale of land.

What was the transaction in question?

The Victorian Urban Development Authority (**VicUrban**) is the authority responsible for promoting, encouraging and facilitating the development of the Docklands precinct in Melbourne. In 2001, it made an agreement with Lend Lease for the development of certain parts of the area (**Development Agreement**). Under the Development Agreement, Lend Lease would progressively purchase parcels of land by entering into specific land sale contracts (**Individual Land Contracts**). Lend Lease would also pay VicUrban certain amounts representing its contribution to infrastructure, public art, site remediation and other improvements (**Contribution Payments**).

VicUrban transferred seven parcels of land in the Docklands precinct to Lend Lease between 2006 and 2010 pursuant to the specific land sale contracts (**Transactions**). Lend Lease also paid VicUrban its stipulated Contribution Payments. At issue was whether the Contribution Payments constituted 'consideration' for the Transactions; if so, they were required to be considered when determining the dutiable value of the Transactions. Lend Lease argued that the relevant consideration was simply the price paid under the specific land sale contracts. Conversely, the Commissioner of State Revenue contended that the relevant consideration was the aggregate of all sums Lend Lease had paid VicUrban under the Development Agreement.

What did the High Court decide?

The High Court rejected the view that the Transactions could be deemed to comprise the following sub-transactions:

- the transfers of land (subject to duty); and
- other matters or transactions (not subject to duty).

The High Court took the view that the obligations under the Development Agreement were so intertwined that all payments under the Development Agreement (including the Contributions) constituted the consideration for the Transactions. In particular, the High Court ascribed weight to the fact that each Individual Land Contract provided that an event of default included a breach not just of the Individual Land Contracts but also a breach of 'any other project document' (ie. the Development Agreement) (**Default Event**). The High Court found that this interrelationship between the Individual Land Contracts and the Development Agreement demonstrated that there was 'only one bargain between the parties,

not two or more bargains'. Lend Lease promised performance of all its payment obligations and not just the payment for the land under the Individual Land Contracts.

Further, the consequences of a Default Event were an important factor in the High Court's reasoning. In the event that VicUrban terminated any of the Individual Land Contracts, Lend Lease was entitled to be reimbursed 'the aggregate of all sums actually outlaid', including those paid as Contribution Payments. Accordingly, the Contribution Payments were viewed as inseparable from the payments made under the Individual Land Contracts. VicUrban was also unwilling to transfer the land if it did not receive the requisite Contribution Payments from Lend Lease.

Highlights

- Duty will be payable in respect of a transaction for the transfer of land on the amount which is greater than the 'consideration' for the transfer and the unencumbered value of the land. The 'consideration' for the transfer of land can be broader than simply the purchase price and can include instalment payments, financial accommodation, goods or services.
- The contractual provisions which document a purchaser's obligation to make payments or provide financial accommodation, goods or services do not have to be located in the relevant sale of land contract in order to be deemed to form part of the consideration for the transfer of land specified in that sale of land contract. The key question is: what are the purchaser's obligations that 'move' the transfer of land.
- Consideration for a transfer of land can comprise payments made after the relevant transfer of land has been completed (eg. Contribution Payments which were expressed as a percentage of the profit on the sale of pieces of developed land).
- Payments for infrastructure developments which did not affect the parcel of land being transferred can nevertheless form part of the consideration for the transfer.

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We have a breach! How do you know when you've gone too far?

Case Summary: *Androvitsaneas v Members First Broker Network* [2013] VSCA 212

The Court of Appeal of the Supreme Court of Victoria has adopted a test for material breach which is considered to be more liberal than its predecessor. Breaching a contract is a serious matter; however, it can sometimes be remedied. Nonetheless, the Court of Appeal decided that an offending party has caused a material breach if the innocent party has reasonably considered it to have a 'serious effect' on the contract. The decision set aside the long standing measure of a breach to be a material breach if it has jeopardised the entire contract.

The Facts

In the Androvitsaneas case, the appellant, Andrews, was a credit representative for the respondent, Members First, which operated a mortgage broker banking business. Members First employed Andrews through a credit representative deed (**CR Deed**).

Andrews' cousin and his wife (**the partners**) ran a cleaning business in partnership and approached Andrews to provide them with a loan to purchase residential property. Following an interview, the partners provided substantive financial records to Andrews to assist him with the application.

On 16 March 2011, Andrews completed a 'low doc' loan application (an application without documented proof of income) to ANZ. ANZ declined the application.

On 28 March 2011, Neil Migliorisi, an assistant broker, lodged a low doc application for the loan with St George as Andrews did not have the requisite authority to deal with St George. The application was withdrawn as St George requested further documentation to clarify an incongruence in the partners' declared income.

After these two unsuccessful applications, Andrews drafted another low doc application signed by the partners' accountant which Andrews lodged with Bankwest. Bankwest approved the loan and proceeded to settlement.

On 14 June 2011, Andrews' was terminated by Members First for breaching his obligations under the CR Deed by misrepresenting the partners' true income. Andrews' breach constituted a 'termination for breach' under the CR Deed as Members First reasonably considered the breach to be a material breach.

Decision

The Court of Appeal held that the Supreme Court was correct in finding that Andrews' conduct constituted a breach of such a serious nature as to reasonably be considered a material breach.

Andrews had breached his obligations by failing to properly verify the financial situation of the partners in the face of contradictory and inconsistent information supplied by them, when preparing the low doc application for Bankwest.

The Judges disregarded the nature of Andrews' relationship with the partners, placing more emphasis on Members First's exposure to a potential criminal liability because of the misrepresentation. The trial judge was correct in her decision to hold that the loan could not be reversed, nor could any potential liability be discharged by remedial action.

For a particular breach to be classified as having a serious effect on the benefit which the other party would otherwise have had from the transaction, it is necessary to consider the intended benefits that would have been secured had the breaching parties complied with the contract.

The Court of Appeal affirmed Her Honour's decision to find that Andrews' misrepresentation of the partners' income was a material breach of the CR Deed and that Members First did reasonably consider the breach to be a material breach.

However, the Judges did not accept Her Honour's import of Justice Warren's understanding of 'material breach' in *Forklift Engineering Australia Pty Ltd v Power Lift (Nissan) Pty Ltd* [2000] VSC 443 (**Forklift**). In the Forkilft case, Justice Warren (as she then was) explained that a 'fundamental breach' was any breach which provided the promisee with a right to terminate performance of the contract due to total non-performance of the contract and is a breach that deprives a party of substantially the whole benefit of the contract. That is, the contract could be terminated if there was a material breach.

However, in the Androvitsaneas case, Members First terminated Andrews' services once it had reasonably considered the breach as a material beach. The Court considered that it was inappropriate to equate the 'material breach' which must be reasonably considered by Members First, with the Forklift 'fundamental breach'.

The Court of Appeal agreed with Her Honour that a material breach is significant but not as high as the construction in Forklift. The Judges preferred White J's construction of material breach in *Elders Ltd v EJ Knight & Co Pty Ltd* [2009] NSWSC 1462 that *"for the breach to be material, it must have had a serious effect on the benefit which the Lessor would otherwise have had from the transaction, that is, it must be of a serious or substantial import"*.

Implications

All parties to a contract must be wary of their obligations when performing any service and should not take their rights for granted. The decision of the Court of Appeal has not only brought Victoria into line with the other states in Australia but it has also increased the burden on all parties to make sure that they understand their responsibilities and do not rely on what can be remedied should there be an issue.

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Meng Lee participates in joint development programme hosted by the United Nations Capital Development Fund and the Department of Foreign Affairs and Trade

On 29 April 2015, Meng Lee participated in a joint development programme in Cambodia, hosted by the United Nations Capital Development Fund (**UNCDF**) and the Australian Government Department of Foreign Affairs and Trade (**DFAT**). The programme seeks to promote and develop inclusive financial markets in frontier economies within the ASEAN region.

Attending the programme were representatives and senior executives from a range of multinational banks, financial service firms, government agencies, central banks and impact investment firms. Meng shared his experience and insight on the manner in which public-private partnerships and wholesale fund vehicles could be structured in order to accelerate the development of alternative financial products, and how perceived competing interests could be developed into strategic partnerships.

Since then, Cornwall Stodart has been playing a vital role in the facilitation of the participation of corporate funders, UNCDF and DFAT in the formation of an enabling fund which seeks to enhance financial inclusive practices in the Greater Mekong region. In particular, we are advising on the structure of the proposed fund and distribution

structures, as well as assisting the participants in identifying and navigating sensitivities mandated by their respective stakeholders. The corporate funders are seeking enhancements to their brand capital in being financial participants, the UNCDF is seeking the attainment of finance to fund the project objectives and DFAT is seeking the participation of the private sector as key participants in achieving the Aid for Trade objectives. This is the first project of its kind, and is a pilot project for the region, with the intention that the structure be replicated internationally in regions targeted by the Shaping Inclusive Finance Transformations (SHIFT) programme.

The SHIFT programme aims to improve the current level of financial inclusion in the ASEAN region by facilitating the transition of low-income people's use of financial services from informal mechanisms to formal, regulated and higher value services. This transition enables low-income people to increase their productive investments, consumption stability and asset ownership. The SHIFT programme will adopt a regional and pro-poor market development approach to achieve economies of scale in addressing shared policy, market constraints and opportunities (particularly across small-scale national financial systems). In addition, short-term interventions having direct impact and long-term transformational interventions are expected to address systemic market constraints. SHIFT seeks to achieve these goals with the participation of, and co-investment by, corporate partners within the private sector.

Cornwall Stodart is a pre-eminent impact investing and social finance legal firm in Australia. We have assisted financial institutions, private equity firms, corporates, government departments, not-for-profits and charities involved in the impact investing and social finance sector. We are experienced in negotiating and structuring onshore and offshore public-private partnerships, and navigating government, not-for-profit and corporate stakeholder requirements. We have strong capabilities in all issues that affect our impact investing and social finance clients, including tax, private equity, mergers and acquisitions, debt equity structuring and regulatory issues.

If you would like further information, please contact Meng Lee at m.lee@cornwalls.com.au or on +61 3 9608 2157.

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Team Member Profile

Dennis Tomaras, Partner, Revenue Law

Dennis has a depth of experience in the taxation and revenue law field having been a partner at a number of accounting and law firms prior to joining Cornwall Stodart.

He provides practical and commercially focussed taxation planning and structuring advice for Australian public companies and privately owned businesses, for mergers and acquisitions, appropriate business structures including transformation from one structure to another, as well as international tax planning advice (whether inbound or outbound investments, restructures or disposals).

Dennis also provides advice in developing appropriate tax strategies for business, including the management of and resolution of taxation disputes with Australian federal and state taxation authorities.

He assists and advises boards and business owners on strategic issues and growth opportunities, including assessment of possible acquisitions, new business ventures and expenditure reviews.

Dennis is also a commentator on business issues and has regularly appeared on radio station 3AW over the last five years in this capacity.

Click here to view Dennis' full profile.