FMCG Express

September 2021

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Welcome to our latest edition of FMCG Express! Whilst earlier this year, it would appear that the business malaise post-COVID-19 was beginning to lift, constant disruption continues to face the FMCG sector as the impacts of the pandemic continue to affect supply chain management and bricks-and-mortar retail in more ways than one.

Whilst for many consumer and retail companies, the focus remains on stabilising business operations, the pandemic has also continued to drive the rapid evolution of digital sales platforms, e-commerce and the digital consumer experience.

In this edition of FMCG Express, we take a deep dive into the boom of non-fungible tokens (NFTs) and the increased accessibility to cryptocurrencies and blockchain technology, as well as the introduction of the Ransomware Payments Bill 2021 into Federal Parliament, to combat the rise of ransomware.

David Smith takes a look at the new regime for unfair contract terms in the Australian Consumer Law, in particular how the changes can present new risks for businesses, not to mention the more serious consequences for breaches. Dudley Kneller and Renee Smith shine a light on how businesses have managed their contractual obligations during the pandemic and what parties are doing to manage force majeure risk.

As the digital consumer experience continues to grow, social media platforms have increasingly become a powerful promotional tool for many brands. Antoine Pace explores the responsibility that comes with advertising on social media platforms, including influencer advertising.

Privacy concerns also continue to affect app developers, businesses and retailers who target online advertising to drive sales. Raisa Blanco and Stephanie Rawlinson investigate the privacy pivot and the roll out of Apple and Facebook's new privacy features.

We hope you enjoy this edition of FMCG Express. Please reach out if you have any queries or feedback – we love hearing from you.

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The changing legal landscape in engaging casual employees

By Brett Feltham, Partner and
Sera Park, Associate

Over the last decade there has been a steady trend of casualisation in the Australian workforce and now approximately 20% of the Australian workforce are engaged as casual employees. There is no reason to expect that trend to change anytime soon. Unfortunately, there has been a lot of confusion around the engagement of casuals and whether they might be classified as permanent employees at law. However, recent reforms to the *Fair Work Act 2009* (Cth) (FW Act) and the High Court decision in *WorkPac v Rossato* [2021] HCA 12 have now provided greater certainty for employers in engaging a casual workforce. Set out below are further details of those changes and what employers need to do going forward.

Definition of casual employee

On 27 March 2021, the FW Act was amended to include a statutory definition of a 'casual employee'. A person will be a casual employee if:

- an offer of employment is made by the employer on the basis that the employer makes no firm advance commitment to continuing and indefinite work according to an agreed pattern of work;
- the person accepts the offer on that basis; and
- the person is an employee as a result of that acceptance.

Whether the employer makes no firm advance commitment to continuing and indefinite work is assessed at the time when the offer is made, taking into consideration the following criteria:

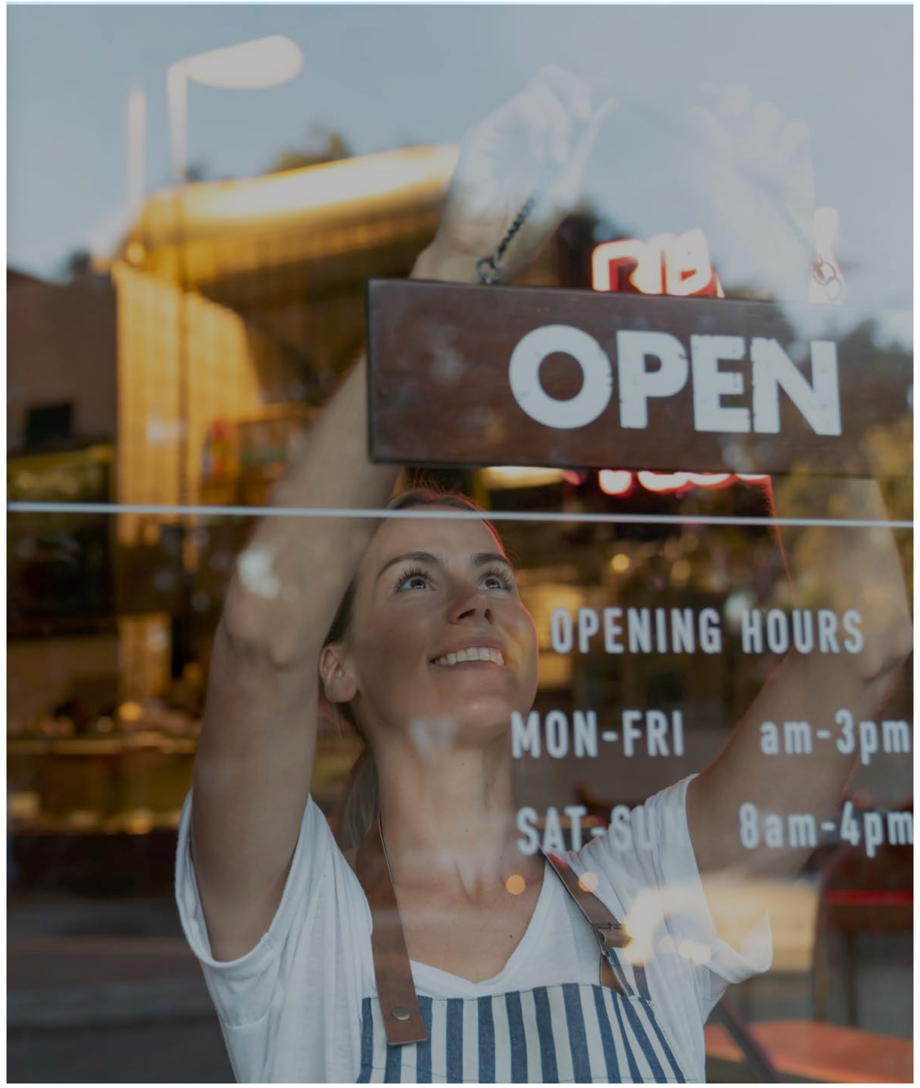
- whether the employer can elect to offer work and whether the person can elect to accept or reject work;
- whether the person will work as required according to the needs of the employer;
- whether the employment is described as casual employment; and
- whether the person is entitled to a casual loading or a specific rate of pay for casual employees under the offer, a modern award or an enterprise agreement.

As such, when engaging casual employees, it is important to ensure that any employment contracts are drafted in such a way as to properly reflect the requirements set out above under the FW Act.

Requirement to offer casual conversion

Employers (except small business employers, i.e. employers with less than 15 employees) are now required to offer eligible casual employees the ability to convert to ongoing full-time or part-time employment within 21 days after the employee's 12 month work anniversary. A casual employee will be eligible for conversion if:

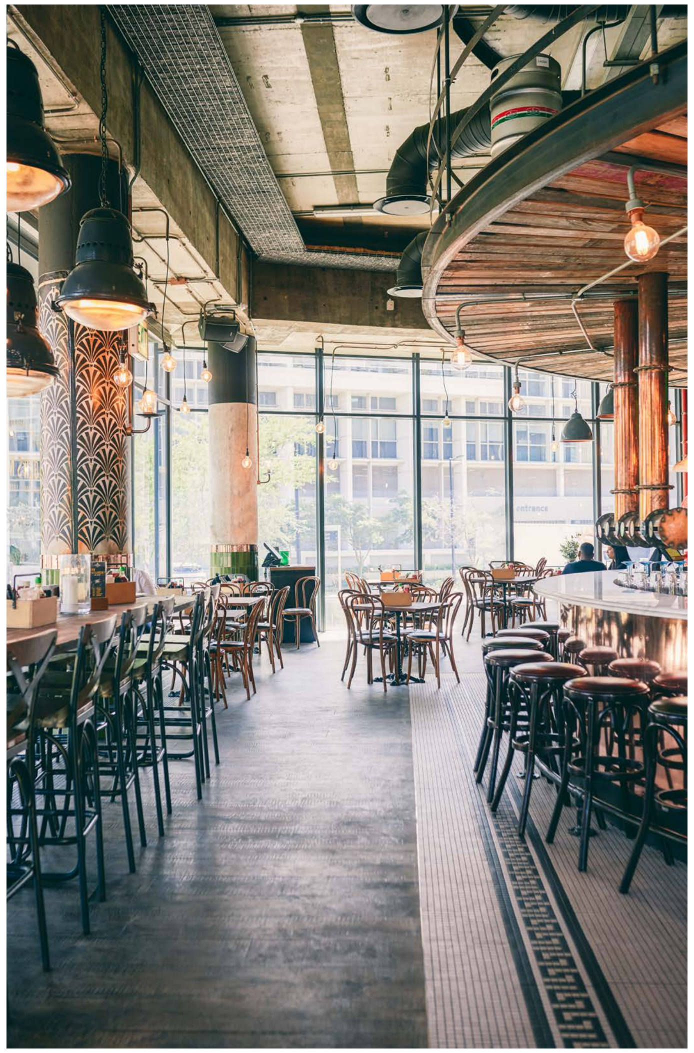
- the employee has been employed by the employer for a period of 12 months;



- during the last six months of employment, the employee has worked a regular pattern of hours of work and on an ongoing basis; and
- the employee could continue to work these hours as a full-time or part-time employee without significant adjustment.

However, an offer for conversion does not have to be made by the employer if there are reasonable business grounds not to do so at that time. Reasonable business grounds may include reasons such as the employee's position will not exist in the next 12 months, the hours of work the employee is required to perform will be significantly reduced within the next 12 months, or the employee's days or times of work will significantly change, and cannot be accommodated within the employee's available days or times for work. There may be other reasonable grounds on which an employer could decide not to make an offer of conversion, including those that relate to the workplace or the employee's role.

If an employer decides not to make an offer of conversion, it must advise the employee in writing within 21 days after the end of the employee's 12 month work anniversary. The employer must also include reasons for not making the offer, including setting out the grounds on which the employer has decided not to make an offer.



Requests for conversion by casual employees

A casual employee may also request conversion from their employer in some circumstances.

To be eligible to request casual conversion, a casual employee needs to have been employed by the employer for at least 12 months, have worked a regular pattern of hours on an ongoing basis for at least the last six months, and could continue working those hours as a full-time or part-time employee without significant changes. An employee will not be eligible to make a request if, in the last six months, they have refused a conversion offer from their employer, their employer has told them in writing that they will not be making an offer of casual conversion on reasonable business grounds, or their employer has refused another request for casual conversion on reasonable business grounds. Casual employees who believe they are eligible to convert can make a request for conversion every six months.

If an employer receives such a request, they must respond in writing within 21 days to either accept or refuse that request. An employer can only refuse a request once they have consulted with the employee and on reasonable business grounds.

Before conversion to permanent

Before a casual employee converts to permanent employment, whether as a result of an offer by the employer or a request by the employee, the employer must discuss with the employee the type of employment (full-time or part-time), the hours of work as a permanent employee, and the start date for that change.

The employer needs to then confirm that information in writing to their employee within 21 days after the employee accepts the offer or the employer accepts the request.

The High Court decision in WorkPac v Rossato

In November 2020, the High Court of Australia granted special leave to WorkPac to challenge the Full Federal Court decision in *WorkPac v Rossato* [2020] FCAFC 84. The Full Federal Court had previously found that engaging employees on the basis they were casual and paying them a casual loading was not enough for them to be considered true casuals at law. The Court found that a loading had been paid by WorkPac on the mistaken belief that Mr Rossato was a casual employee and as such, it could not be used to set off against entitlements owing to permanent employees (and which WorkPac did not consider that it owed to Mr Rossato at that time). The Court considered the post-contractual conduct of the parties rather than just the express terms of the employment contract in determining these issues. This meant that long term casuals who worked regular and systematic hours were likely to be considered permanent at law, and therefore entitled to receive entitlements such as annual leave. This decision caused significant concern amongst both employers and the Federal Government, with estimates that it could cost employers up to $39 billion to correct.

On appeal the High Court, however, unanimously held that Mr Rossato was in fact a casual employee and therefore not entitled to various entitlements such as annual leave. The High Court referred to the definition of ‘casual employee’ set out in the FW Act, and said that for casual employees there was ‘no firm advance commitment as to the direction of the employee’s employment or the days the employee will work’. The Court also said that casual employees could still have a reasonable expectation of continuing employment on a regular and systemic basis, and that having such an expectation did not make them permanent. The High Court’s approach crucially differed from the Full Federal Court’s position, in finding that the question was to be determined exclusively by considering the contractual arrangements between the parties, not by taking into account post-contractual conduct or the ‘totality of the relationship’.

What should employers do?

Although the High Court decision in Rossato has provided some reassurance and clarity for employers who engage casual employees in terms of backward looking risk, it is the practical effect of the amendments to the FW Act, which may provide employers the most comfort and certainty going forward.

To ensure that they take advantage of these changes and the High Court’s decision, employers who engage casuals should:

- ensure that they provide all casual employees with a written employment contract;
- review and update any template employment contracts they use to ensure they reflect the new legislative definition of a ‘casual employee’ under the FW Act, and do not simply ‘label’ employees in that way;
- provide updated employment contracts to existing casual employees where relevant;
- when paying loadings to an employee, specify what the loading is compensating the employee for, and where possible, the proportion of the loading attributable to each permanent employee entitlement;
- remember that the High Court’s decision will remain relevant for enterprise agreement covered employees, where the agreement was entered into before the latest FW Act changes;
- consider whether any business changes which were made as a result of the earlier *WorkPac v Skene* and *WorkPac v Rossato* judgments should to be changed or reversed;
- make conversion offers to eligible employees, or if no offer is made, provide reasons to an employee in writing for not doing so. Please note that if you are a small business employer, there is no positive obligation to make offers of casual conversion to your employees;

identify all casual employees who commenced employment before 27 March 2021, and assess whether they will be eligible for casual conversion by 27 September 2021;

- consider any requests made by employees to convert to be full-time or part-time employees (this right extends to employees of small business employers);

- provide a Casual Employment Information Sheet to all new casual employees and to all existing casual employees as soon as practicable after 27 September 2021;
- have an appropriate system or process in place to ensure compliance with the casual conversion requirements in accordance with the FW Act, including to ensure that conversion offers are made within 21 days of an employee’s first work anniversary date, and documenting any offers of conversion and subsequent acceptance or rejection of those offers in writing.

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The rise and rise and rise of NFTs… but what are they and are there any legal risks?

By Lisa Haywood, Associate

You are probably wondering what Paris Hilton, Edward Snowden and Eminem have in common. Well, they have all released NFTs. The market for non-fungible tokens (NFTs) is booming right now and is only likely to continue to grow over time as cryptocurrencies and blockchain technology become more accessible.

In light of NFTs' exponential growth in popularity, it is essential to understand the legal risks associated with NFTs.

What are NFTs?

An NFT is a unit of data stored on a digital ledger that certifies a digital or physical asset as unique and therefore not interchangeable.[1]

An asset is 'fungible' if it is interchangeable or replaceable by another identical item. For example, fiat currencies (e.g. $AUD or $USD) or cryptocurrencies. A 'non-fungible' asset, on the other hand, is unique and therefore not interchangeable. For example, an original Picasso is non-fungible for this reason: it is one of a kind.

'Token' is shorthand for digital asset.

It is the unique and scarce characteristics of NFTs that make them such hot commodities and why they have become so popular. The value of an NFT is in its ability to prove ownership and originality.

What types of items can be NFTs?

NFTs can create unique digital assets or can be linked digitally to tangible assets.

For example, unique digital NFT assets could include things such as artworks, collectables (e.g. Pokémon cards and Marvel merchandise), video footage, games and music (e.g. the Kings of Leon record that was released as an NFT album). The list goes on.

Comparatively, NFTs can also be linked digitally to tangible assets to reflect ownership, such as to real estate or vehicles. Who knows, we may all decide to tokenise our houses one day.

Where do they exist?

NFTs are 'minted', i.e. created, using smart contract protocols on a suitable blockchain, commonly on the Ethereum blockchain. Subsequently, NFTs are stored in blockchain-based wallets.

NFTs are traded using cryptocurrency (such as Ether, which is the cryptocurrency associated with the Ethereum blockchain) and a transaction record is created on the blockchain which serves as authentication and verification of the NFT transaction.

Each NFT is comprised of metadata which makes it non-fungible. Each time an NFT is transferred, that transaction is recorded on the blockchain.

Are NFTs regulated in Australia and what are the considerations?

As you may expect, there is no legislation in Australia that specifically deals with NFTs. However, that does not mean that they do not fall within the bounds of existing regulatory frameworks.

In Australia, this may include consumer laws (such as the Australian Consumer Law), tax laws and intellectual property laws (such as the *Copyright Act 1968* (Cth)).

It is also important to consider that regulatory frameworks for NFTs will likely be introduced across the globe as time passes and this may change the ownership, use and disposal of NFTs.

Here are a few things to consider at the moment:

Copyright

On its own, the purchase of an NFT only grants the purchaser ownership over the specific version of the work that has been purchased. It does not provide the purchaser a proprietary right to every copy or version of the work. However, whether the purchaser obtains the copyright in an NFT when it is purchased is a controversial question.

In most instances, when a person purchases an NFT representing a work in which copyright subsists, they are only purchasing the NFT itself, and therefore are not granted the copyright in the underlying work. Generally, the creator of the underlying work will retain rights in the underlying intellectual property.

That being said, this position can be varied by a contractual arrangement. This can occur by way of a contract of sale and an assignment, standard terms and conditions that apply to the purchase can be incorporated into the smart contract that governs the NFT transaction.

Given the global nature of NFTs, it is also important to understand that the position in relation to copyright will vary depending on the jurisdiction.

Any person wanting to purchase an NFT should undertake a thorough due diligence process to understand whether the person selling the digital works is the true owner of the works, and thereby entitled to grant the rights associated with the NFT. It might also be necessary to investigate whether any other licences have been granted in respect of the underlying work, and whether any terms associated with the work prevent the creator from creating future copies (which could de-value the NFT being purchased).

If it is important to the purchaser to obtain the intellectual property rights in the work underlying the NFT, they must carefully review the terms of the purchase to ensure that the terms reflect their intention, including in any smart contract.

Data protection laws

Some data protection laws grant persons the right to erase their personal data or correct inaccuracies. However, the nature of blockchain might make this right functionally impossible to exercise. NFTs that contain personal information could potentially contravene data protection laws, which could result in penalties.

Reliance on blockchain

NFTs are created by smart contract protocols and exist on a blockchain. Ownership and access to the NFT is reliant on maintenance of the blockchain and ability to access the wallet in which the NFT is stored. If a purchaser loses their ability to access their wallet, then the purchaser could also potentially lose control over the NFT.

Taxation

Another area of law that has not quite caught up to NFTs is taxation. According to the Australian Taxation Office, the tax treatment of non-fungible tokens follows the same principles as other cryptocurrencies. On this basis, the tax treatment of an NFT will depend on your use and your reasons for holding and transacting with the NFT. For example, there may be capital gains tax implications arising from an NFT transaction. Before purchasing an NFT, the tax implications should be considered.

What is next?

With the exponential rise of NFTs, the law has not quite caught up and there remains a significant amount of legal ambiguity surrounding many different aspects of NFTs. Complex legal issues will arise with the commercialisation and ownership of NFTs, and with them a growing need for thorough due diligence. For this reason, it is essential that legal advisers remain up to speed on developments in the law and technology as they are emerge.

[1] Dean, Sam (2021-03-11). '$69 million for digital art? The NFT craze, explained'. Los Angeles Times.

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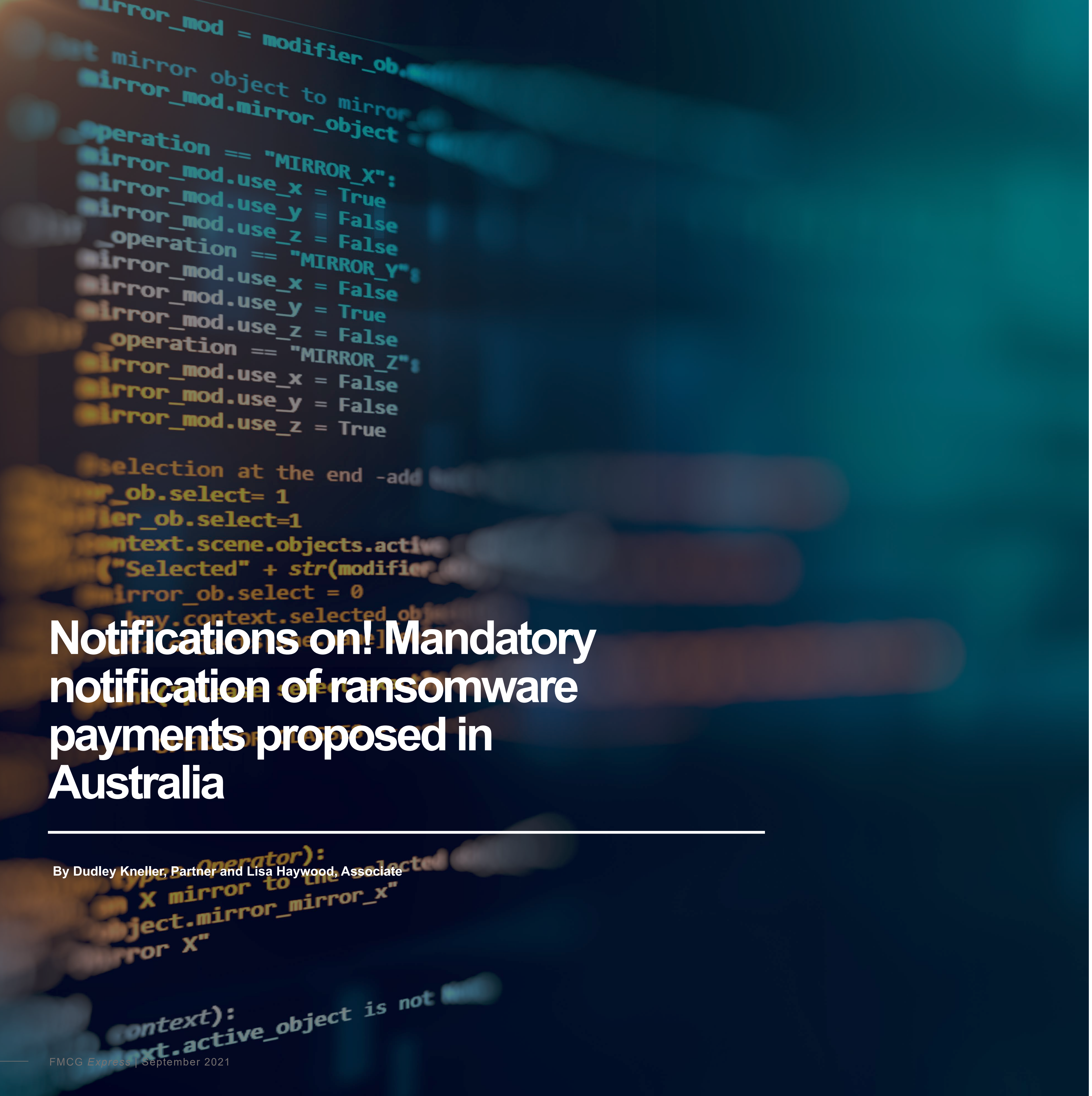

Notifications on! Mandatory notification of ransomware payments proposed in Australia

By Dudley Kneller, Partner and Lisa Haywood, Associate

On 21 June 2021, MP Tim Watts (the Shadow Assistant Minister for Cyber Security) introduced the Ransomware Payments Bill 2021 (**Bill**) into Federal Parliament.

The Bill responds to the rise in number and value of ransomware attacks in recent years facilitated by the increase in remote working and advances in encryption technology. The cost of ransomware to the Australian economy was estimated to be over $1 billion in 2019 alone.

Recent targets of ransomware attacks include:

- cloud computing provider Blackbaud (which paid an undisclosed amount of bitcoin to the attackers);
- corporate travel management company CWT (which paid US$4.5 million to recover its data); and
- GPS smartwatch and wearables company Garmin (which is speculated, but not confirmed, to have paid a US$10 million ransom to restore its systems to the attackers).

If the Bill is passed, it would require entities in Australia to report a ransomware payment, as soon as practicable, by giving written notice of the payment to the Australian Cyber Security Centre (**ACSC**).

Small businesses with an annual turnover under $10 million will be exempt from the scheme, as would sole traders, unincorporated entities and charities. Failure to notify will attract significant pecuniary penalties. Industry and cyber-security experts support the introduction of mandatory reporting scheme, which will assist private entities and the public sector to better understand and respond to this threat. A copy of the Bill can be found here.

What does the Bill do?

The Bill introduces reporting requirements in relation to ransomware payments.

The Bill also allows the ACSC to disclose any of the information contained in the notification to any person (including the public) for the purpose of informing the person about the current cyber threat environment. However, the information that can be disclosed does not include personal information.

There is no timeframe specified in the Bill for reporting other than 'as soon as practicable'. The meaning of 'as soon as practicable' is not defined and will hopefully be clarified before the Bill is passed.

Who does the Bill apply to?

The Bill applies to:

- corporations;
- partnerships;
- Commonwealth agencies; and
- State or Territory agencies.

Small businesses with an annual turnover under $10 million will be exempt from the scheme, as would sole traders, unincorporated entities and charities. The purpose of excluding small businesses is to limit compliance costs and to ensure that ACSC has access to high-quality, actionable intelligence from the mandatory disclosures.

What information needs to be reported and in what form?

The Bill requires the reporting of 'ransomware payments'.

This is defined as the payment of money or other consideration (which would include things such as cryptocurrencies) to:

- end the unauthorised access, modification, impairment; or
- prevent publication of any of the data; or
- end the restriction on access to the data; or
- prevent damage or destruction of data; or
- otherwise remediate the impact of the unauthorised access, modification or impairment.

The notification must set out:

- the name and contact details of the entity;
- the identity of the attacker, or what information the entity knows about the identity of the attacker (including information about the purported identity of the attacker); and
- description of the ransomware attack, including:
  - — the cryptocurrency wallet etc. to which the attacker demanded the ransomware payment be made;
  - — the amount of the ransomware payment; and
  - — any indicators of compromise (i.e. technical evidence left by the attacker that indicates the attacker's identity or methods) known to the entity.

What are the penalties for failure to notify?

If an entity fails to notify, the pecuniary penalty is 1,000 penalty units (currently $222,000 per contravention).

Criminal proceedings

The Bill proposes that information obtained as a direct consequence of the notice will not be admissible in evidence against 'individuals' in criminal proceedings. The provision is drafted to only refer to individuals. However, it seems that the intention is to cover entities too. Notably, the safe harbor does not extended to civil proceedings. Therefore, it is possible that the report could form the basis for regulatory or other action.

The introduction of the Bill once again highlights the prevalence of ransomware attacks and the need for businesses to be prepared to seek to mitigate the potential risk if a ransomware attack occurs.

So what are the types of things that businesses can do in the first place to seek to mitigate risk of ransomware attacks:

- ensure ongoing and regular backups of your data;
- have offsite recovery options in place so if your primary site is hit you have a backup you can rely on;
- ensure you have multifactor authentication, adequate password protection and ensure your software is updated regularly to fix exploits;
- training staff to identify security risks (e.g. phishing emails and email management);
- appropriate policy development;
- appropriate cyber risk insurance; and
- intergrading security training into on-boarding new staff.

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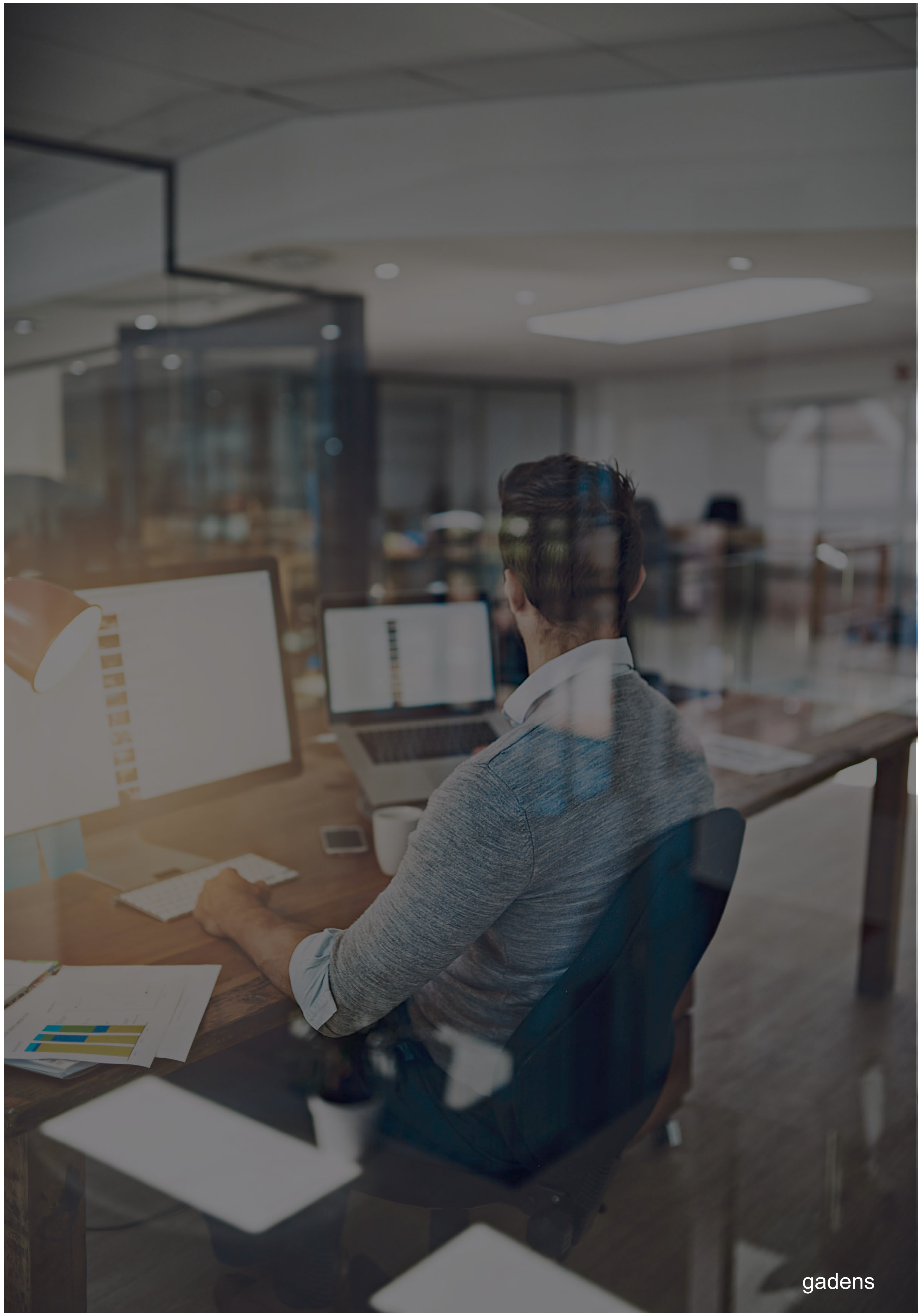

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Unfair contract terms – big changes mean big risk for businesses

By David Smith, Partner

Many businesses will be familiar with the existing 'unfair contract terms' regime in the Australian Consumer Law (**ACL**). Draft legislation has been circulated which will implement big changes, including potential penalties of $10 million or more. Businesses will likely need to review many of their contract terms, as the new regime will be much broader and carry much more serious consequences if breached.

The current regime

The current regime is in the ACL and, for financial products and services, in the *Australian Securities and Investments Commission Act 2001* (Cth). It applies to a contract if the following criteria are met:

The contract is a 'standard form contract'.

1. This is not defined but when deciding if a contract fits this description, a court must consider factors such as any bargaining power imbalance between the parties, whether one party prepared the contract before discussing the transaction with the other party and whether there was an effective opportunity to negotiate the terms.
2. The contract is a 'consumer contract' or 'small business contract', within the definitions set out in the legislation.
3. The contract contains an unfair term. A term will be 'unfair' if it:
   - would cause a significant imbalance in the parties' rights and obligations arising under the contract;
   - is not reasonably necessary in order to protect the legitimate interests of the party who would be advantaged by the term; and
   - would cause detriment (financial or otherwise) to a party if it is applied or relied on.

   The types of clause that might be considered unfair include:
   - a broad indemnity in favour of just one party;
   - a broad limitation of just one party's liability under the contract;
   - a right for one party, but not the other, to terminate the contract for convenience;
   - a right for one party, but not the other, to vary the terms of the contract; or
   - an option for one party, but not the other, to renew the contract.

The coming changes

Late last year the relevant Commonwealth, State and Territory consumer affairs ministers agreed to strengthen the existing regime. An exposure draft of the legislation to give effect to the changes has now been released.

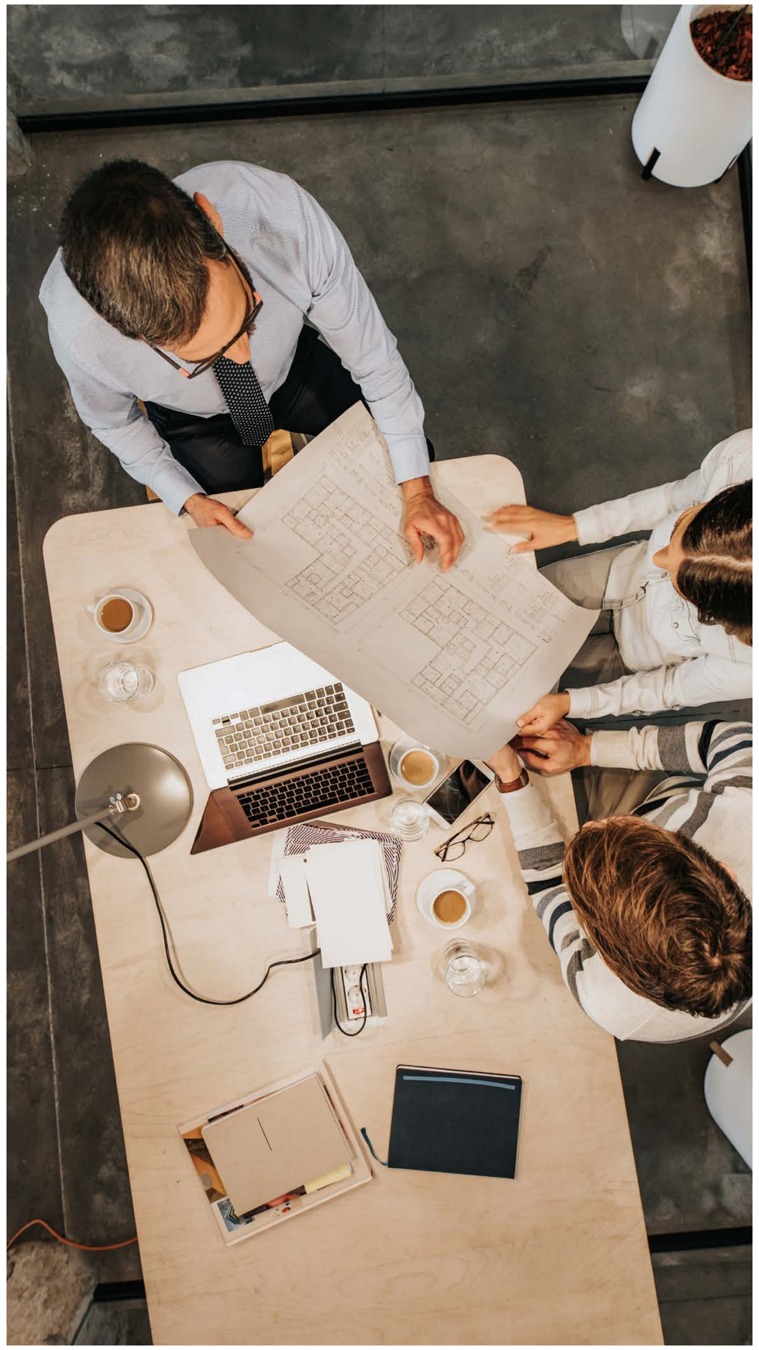
The key changes the draft legislation would implement are:

a. An unfair contract term will no longer be simply void and unenforceable – it will be unlawful and the courts will be able to impose a remedy such as a civil penalty. This will significantly raise the risk for businesses. For a company, the maximum penalty will be the greater of:
   - $10 million;
   - three (3) times the value of the benefit the company obtained from the breach of the law (if the court can determine it); or
   - if the court cannot determine the value of that benefit, 10% of the company's annual turnover.

   For a person other than a company (e.g. a sole trader or partnership), the maximum penalty will be $500,000.

   Each unfair contract term in the same contract will give rise to a separate breach of the law and at least theoretically, could trigger a separate penalty.

b. Many more contracts will be considered 'small business contracts'. Essentially, a business contract will fall within the regime if one party to the contract (importantly, this could be either the supplier or the customer) has either:
   - fewer than 100 employees; or
   - annual turnover below $10 million.



The amended regime is designed to have 'teeth' and is intended to give businesses a strong incentive to comply.

Implications for businesses

The Commonwealth Government invited public comment on the exposure draft legislation during August/September 2021.

Our best guess is that the proposed changes (potentially with tweaks arising from the public consultation process) will be legislated in the first half of 2022.

The new regime will take effect six months after the legislation is passed and receives the Royal Assent. It will then apply to standard form contracts that are new, amended or renewed (but otherwise, it will not apply to existing standard form contracts). That means businesses will have six months to review and amend all of their standard form contract terms – which is not a long period of time.

We think there are a great many agreements in the marketplace that contain terms that are arguably 'unfair'. The amended regime is designed to have 'teeth' and is intended to give businesses a strong incentive to comply. Once the changes take effect, we expect regulators such as the ACCC will make public examples of businesses that don't have their houses in order.

Therefore, businesses should start planning a project to:

- identify all of their contracts that might be considered 'standard form' contracts that are entered with consumers or small businesses, for example standard terms of sale, app licensing terms, loan agreements or standard purchase order terms; and
- have them reviewed and amended to remove any 'unfair' terms, whilst minimising any commercial disadvantage to the business from these amendments.

For a large business that uses numerous sets of standard terms across its operations, this could be a substantial project and the business will need to consider whether to resource it internally or to engage external lawyers.

Interestingly, the Regulation Impact Statement that the consumer affairs ministers considered when deciding to make the changes includes an estimate of the legal costs a business might need to incur. It states that an external legal review and amendment of a simple contract could cost between $3,000 and $10,000, while more complex contracts could cost slightly more. Based on our experience, these figures seem about right.

Please contact us if you would like any assistance preparing for the introduction of the new requirements.

A longer version of this article appears here

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The UGGly trade mark battle – the importance of securing overseas rights

By Hazel McDwyer, Partner and Teresa Elmey, Trade Mark Attorney

As most readers would know, the term 'UGG' is considered generic in Australia for sheepskin boots. The popular sheepskin boots first appeared in Australia in the 1930s and are now considered an iconic and quintessential Australian product…at least to Australians.

In Australia and New Zealand, any registered trade mark rights that include the term UGG are in relation to the overall logo including other distinctive elements aside from the word UGG. In addition, it would be difficult for any party to enforce its registered rights in the term UGG unless a third party was blatantly infringing another party's overall logo in an identical or very similar way, which was clearly being used to make the public believe the goods being sold originated from the same source, rather than in the individual word UGG on its own.

However, while UGG may be considered a generic term in Australia and New Zealand, in the US, the term UGG is a registered trade mark of Deckers Outdoor Corporation (**Deckers**). It was first registered in the US in the 1980s and later assigned to Deckers.

In 2016, Deckers initiated trade mark infringement proceedings against Eddie Oygur and his company Australian Leather for selling 14 pairs of UGG boots on his .com.au website to US customers, four of which were made as 'trap purchases' by Deckers.

Mr Oygur argued that Deckers' trade mark was invalid due to the generic nature of the term 'ugg', which is commonly understood to mean sheepskin boots, not only in Australia but in many other jurisdictions including the US largely due to publicity by celebrities over many years. However, in 2019 a Chicago district court found that Mr Oygur had infringed Deckers' trade marks and Mr Oygur was ordered to pay US$450,000 in damages, plus legal fees which amounted to around $3.5 million. It is worth noting that the 14 products sold to the US were worth around $2,000 in total.

Mr Oygur felt he was left with no choice but to appeal the decision to the US federal appeals courts in Washington DC, which was heard in May this year. The US federal appeals court upheld the decision and the next step in the proceedings is for Mr Oygur to appeal to the US Supreme Court.

Mr Oygur reported that he feels there is no choice but to appeal given the verdict would see his business close and his life savings lost. If Deckers is successful, this effectively knocks out any Australian company from using the term UGG and selling their sheepskin boots into the US or any other jurisdiction that Deckers has registered trade mark rights for UGG.

The case has become a political issue, with former Senator Nick Xenophon calling on the Australian government to assist Mr Oygur in the battle.

Obtaining overseas trade mark rights

While the final outcome of this David v Goliath case remains to be seen, it does highlight the importance of seeking overseas trade mark protection for a business' important brands.

Trade mark rights are jurisdictional and as this case highlights, with the world of online shopping making it possible to purchase goods from nearly anywhere in the world, businesses need to consider where their rights extend to if their website allows their goods to be shipped to multiple jurisdictions.

If your business' website allows shipping of goods into other jurisdictions then it is also prudent to check you are not infringing the trade mark rights of third parties in those jurisdictions. The UGG case is a prime example of this.

This potential issue may be resolved by either restricting where your goods can be shipped and/or restricting access to your website so those outside Australia (or particular jurisdictions) cannot view your website locally. However, care still needs to be taken in relation to advertising on platforms, such as Facebook and Instagram, which can be accessed by consumers on a global basis.

When considering a new brand, or expanding to sell products overseas, we recommend trade mark searches are undertaken in all jurisdictions of interest to avoid potential infringement issues and to seek trade mark protection.

Border issues also need to be considered in some jurisdictions. Some countries such as China may not allow goods to enter the jurisdiction without proof of registered rights held in that country.

Third parties selling online into Australia

In the same way that your business should seek overseas trade mark rights for products it sells in overseas jurisdictions, it is also prudent to keep an eye out for third parties shipping products into Australia that may infringe your business' Australian trade marks. Lodging Notices of Objections with the Australian Border Force notifying them of your trade mark rights should also be considered, if you have not already done this.

If you become aware of third parties selling goods into Australia, please get in touch with us and we can consider the best way forward. It may be that a simple cease and desist letter highlighting your rights in the Australian market could resolve the issue.

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When a party cannot meet its contractual obligations – navigating supply and performance issues during a pandemic

By Dudley Kneller, Partner and Renee Smith, Associate

The nation has been gripped by the COVID-19 pandemic for the past 18 months. As many States entered lockdowns, Gadens commented on some of the anticipated supply and performance issues likely to occur as the pandemic took hold in 2020. You can read that article here. Fast-forward 18 months and the south-east of Australia is once again in lockdown. In this article we reflect on the past 18 months to assess how parties have actually been managing their contractual obligations and what parties are doing to manage force majeure risk.

Look to the contract – Force Majeure

The 'force majeure' clause has long featured in commercial contracts but has been happy to sit in the background and was rarely paid much attention. That is until now. The COVID-19 pandemic saw contract managers all over the country digging out their contracts to see if a force majeure clause was included and what it meant. Was it helpful? Could it be relied upon? Importantly, did it include 'pandemic'? Literally translated, force majeure means 'superior strength' and in most cases where used, the triggering event is usually something extraordinary which halts or prevents the progress of one or both parties from effectively completing their obligations under the contract.

A party claiming force majeure must demonstrate that the intervening event is outside its reasonable control. The clause itself will almost certainly have a list of specific triggering events. Sometimes it will also contain a catch-all provision such as 'and any causes beyond the reasonable control of the party'.

Prior to 2019, 'pandemic' was unlikely to be expressly listed as a force majeure event. Not unsurprisingly it now features prominently in one form or another and depending on which side of the fence you are on (customer or supplier) there are usually fairly heated discussions as to whether it should be included or not, particularly given that COVID-19 is a known event.

The question being asked is can COVID-19 still be considered an event that is outside the reasonable control of a party? We look to the United States for guidance here. A US study analysed the outcome of court proceedings in which parties were seeking to rely on force majeure clauses due to COVID-19. The study confirmed that courts focused on two aspects of a force majeure clause, namely 'foreseeability' and 'control'. An event that is 'unforeseeable' is just that. It cannot be anticipated or foreseen beforehand. In relation to 'control' the focus was on whether and to what extent a party could mitigate a force majeure event.

In Australia the position is no different. We all now enter commercial arrangements with our eyes wide open. Suppliers are being forced to cater for possible disruption to their supply chains by carrying extra stock or procuring product well in advance if possible. Customers are seeking to strike out broad force majeure clauses that reference COVID-19 impacts, arguing that as a known event suppliers should be able to 'work around' likely disruptions moving forward.

We all know this is easier said than done and often it will come down to a sensible conversation about what steps suppliers can reasonably take to mitigate impacts on delivery and broader procurement obligations.

Government mandated lock downs and impacts to supply chains caused by unavailability of stock or personnel from overseas are examples of events that are genuinely beyond the reasonable control of contracting parties. It is these types of examples that feature in genuine good faith discussions around force majeure triggering events in a COVID-19 world.

Frustration

Given no self-respecting commercial contract would now be seen without a detailed force majeure clause it is worth only briefly recapping on common law doctrines such as frustration.

The doctrine of frustration applies where a supervening event beyond the control of the parties results in a radical change in the circumstances in which a contract is to be performed. Frustration can occur in two different ways: frustration of impossibility and frustration of purpose. Frustration of impossibility occurs when it is impossible for a party to complete its obligations under a contract. In contrast, frustration of purpose is when performance of a contract is still possible, but due to the supervening event, the performance of the contract would be of no value to the recipient.

The last 18 months has seen government restrictions including lockdowns and border closures genuinely frustrating contracts through impossibility as suppliers cannot physically deliver the contracted goods or and services to their customers.

Such intervening events have also seen contracts frustrated for purpose for example where perishable goods with use by dates can be delivered ultimately but not in a timely manner.

Lessons learned over the past 18 months and moving forward

A number of sectors of the economy have responded to the challenges posed by COVID-19. The Government at a State and Commonwealth level, through the introduction of stimulus measures including JobKeeper and grants have sought to support businesses unable to effectively trade during this period. Banks, insurers and energy providers have also introduced measures at a consumer level to support impacted individuals and businesses.

At a commercial level, discussions are more fraught. We have seen commercial parties working well to navigate supply chain issues with sensible acknowledgment of the genuine impact of COVID-19. This is not always the case and there are equal numbers of examples of parties seeking to dig their heels in and pressure partners to perform or include obligations that genuinely cannot be complied with.

In all cases, taking the time to negotiate appropriate and commercially acceptable force majeure obligations along with other steps and measures to reduce the risk of supply chain disruption is the way forward. The past 18 months has seen a flurry of activity as parties seek to update their contracts to mitigate risks in the new world in which we live. This is set to continue as organisations across the sector pivot in order to avoid and reduce supply chain disruption. Having a robust (yet workable) force majeure clause in your contracts will assist you to meet the new world challenges with confidence.

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The privacy pivot:
Apple and Facebook roll out privacy features and what this means for businesses and advertisers

By Raisa Blanco, Senior Associate and Stephanie Rawlinson, Associate

Recent and foreshadowed changes by Apple and Facebook to user tracking signal a pivot to privacy-enhancing techniques that has the potential of fundamentally reshaping the user tracking and advertisement targeting going forward. These changes will likely affect app developers, businesses and advertisers relying on targeted online advertising to drive market presence and sales.

Apple – App Tracking Transparency

In April 2021, Apple released its iOS 14.5 update which introduced a significant change to the Apple's user tracking which is causing ripples in the privacy space. The update included Apple's App Tracking Transparency (**ATT**) feature, which requires apps to obtain a user's permission to track or access their device's unique advertising identifier (**IDFA**).

Before the iOS 14.5 update, each user's IDFA was activated by default on all Apple iOS devices and provided app publishers with access to user data. With ATT, all IDFAs have been switched off by default, and users need to grant apps explicit permission to access it.

ATT includes a new type of application programming interface (**API**) which gives software developers a uniform way of requesting tracking permissions from the device user. The API acts as a prompt, which enables users to control which apps they authorise to track their activity across apps or websites owned by other businesses for advertising, or sharing their data with data brokers. Importantly, apps are only permitted to prompt users for permission once, and users are able to review which apps have been granted permission and make any changes to their choice via their devices settings at any time.

The implementation of Apple's ATT framework included new App Store guidelines which provide that app developers 'must procure explicit permission from users via the App Tracking Transparency APIs to track their activity.'

It is clear that app developers will need to be careful to comply with the changes and utilise Apple's API to avoid being banned from the App Store, which could have costly repercussions for an app developer or business.

Facebook – development of privacy-enhancing technologies

On 11 August 2021, Facebook announced its proposed plans to apply privacy-enhancing technologies to shift away from its reliance on individual third party data in providing its personalised advertising services.

These privacy-enhancing technologies include:

- differential privacy, which is a technique that intentionally scrambles datasets to obfuscate individuals' identities;
- multi-party computation, which uses encryption and cryptography technology to anonymise datasets; and
- on-device learning, which allows an algorithm to run locally on a device to determine the kinds of advertisements an individual would find compelling and then show them those specific advertisements, with results later sent back to the cloud in an anonymised and aggregated format for advertisers to review.

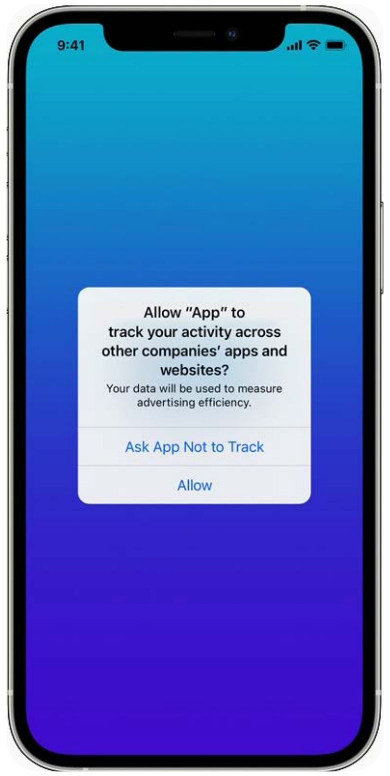
Effectively, Facebook will seek to use these privacy-enhancing technologies in addition to aggregation to limit the risk of re-identifying individuals from datasets collected.

Facebook's approach appears to have very limited impact on users' experience on its app or website, particularly when compared with Apple's ATT framework. Further, the privacy-enhancing technologies proposed by Facebook aim to reduce the impact on the efficacy of its personalised advertising services, which would mean that advertisers and businesses could expect to achieve the same reach that is currently expected from Facebook's personalised advertising services.

The privacy-enhancing technologies proposed by Facebook are currently in development, and Facebook has not yet released any concrete roadmap to date.

Impact on advertisers and businesses

In respect of Apple's ATT framework, there is a concern among the publishing and digital advertising industry that the majority of users will not choose to provide apps with access to their IDFA, which would leave apps with limited data for digital advertising campaigns. Of particular concern is the impact of the ATT framework on advertising campaigns for small businesses. For example, the restaurant industry has expressed its concern that the changes will mean that businesses would be unable to target their customer base easily based on user location.



App developers are concerned that the ATT framework would likely force a change in business models to paid apps. Otherwise, advertisers and businesses may seek other ways to track users to maintain advertising-derived revenue.

On the other hand, there has been limited discussion regarding the impact of the privacy-enhancing technologies proposed by Facebook.

This will likely change when Facebook actually implements these privacy-enhancing technologies and the impact on its personalised advertising services become more concrete.

Practical steps

Although Apple's ATT framework is the first significant change in this space, there are also developments being rolled out by Google within its private click measurement, Federated Learning of Cohorts, and an end to third party cookies on its Chrome web browser. It is clear from these developments that we are seeing a move into a new privacy-centric era in the digital advertising space.

So what should advertisers and businesses do? The following strategic points may help advertisers and businesses navigate this environment:

- Embrace privacy-enhancing technologies and develop apps that align with privacy by design process. Infrastructure upgrades are more costly in the long-term, and advertisers and businesses should take the opportunity to invest in new privacy-enhancing technologies that will not require a significant overhaul when changes (whether prompted by the private sector like Apple or Facebook, or by regulation).
- Workarounds to privacy regulations are not a viable, long-term solution, particularly considering the impending changes to the *Privacy Act 1988* (Cth) and increased penalties for non-compliance.
- Track variations in ad spend and revenue over time to assess efficiency of ad campaigns, which may require advertisers and businesses to rely on data analysis platforms but would provide more reliable and robust analysis rather than solely relying on personalised advertising channels.

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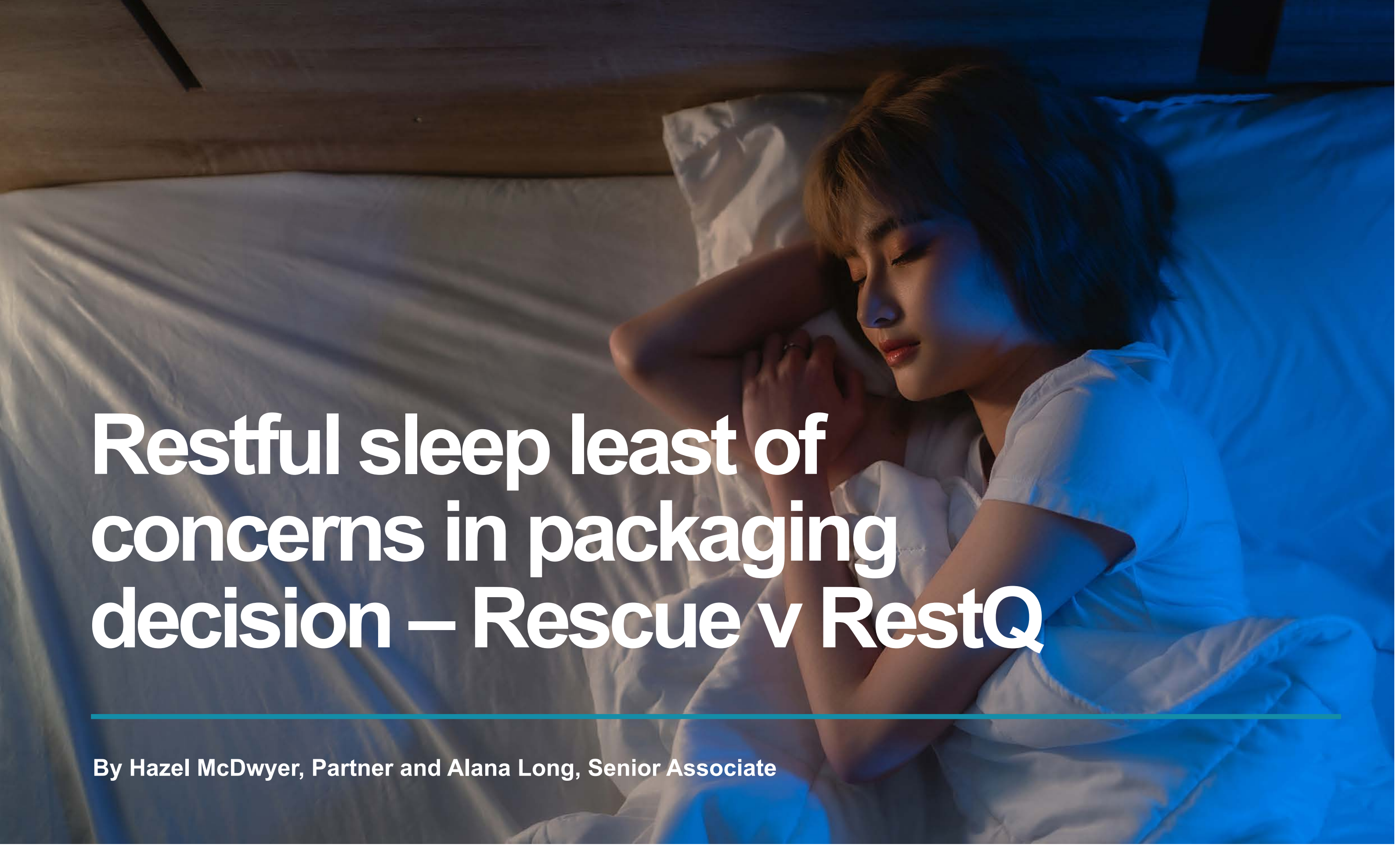

Restful sleep least of concerns in packaging decision – Rescue v RestQ

By Hazel McDwyer, Partner and Alana Long, Senior Associate

Key considerations

Despite manufacturing products promising restful sleep, the parties to the Rescue v RestQ litigation have surely had some restless nights. There are two noteworthy aspects to this litigation:

1. interlocutory relief was granted in circumstances where product packaging 'sailed too close to the wind'; and
2. in a related contractual claim, an exclusive jurisdiction clause was not enforced.

The circumstances surrounding this litigation are quite common particularly between parties who once had a relationship of supplier/customer. The decisions of the Federal Court on both aspects give guidance to Australian businesses on the potential risks in developing a competitive product and the implications of exclusive jurisdiction clauses, which are often a point of contention between parties located in different jurisdictions.

The Intellectual Property case

We were introduced to the parties in A *Nelson & Co Limited v Martin & Pleasance Pty Ltd* [2021] FCA 228. Bach Flower Remedies Limited (**Bach**) is a wholly owned subsidiary of A Nelson & Co Limited (**Nelson**), being UK based companies (together, **the Applicants**). Bach is the registered owner of the trade marks 'Rescue', 'Rescue Sleep' and 'Bach' in connection with healthcare products. The respondents are Martin & Pleasance Pty Ltd (**M&P**), Aloe Vera Industries Pty Ltd (**Aloe Vera**) and Martin & Pleasance Wholesale Pty Ltd (together, **the Respondents**).

Aloe Vera applied to register the trade marks RESTQ and in connection with pharmaceutical, homeopathic and naturopathic preparations in October 2020. The Respondents launched their RestQ products in February 2021 and the Applicants quickly commenced an application for interlocutory relief.

To succeed in an application for interlocutory relief it is necessary to show, among other things, that there is a serious question to be tried, the balance of favour lies in granting the relief, an award of damages is not an adequate remedy and interlocutory relief is in the public interest.

Below is a comparison of the parties' packaging from the decision:

M&P's RESTQ SLEEP | Nelson's RESCUE SLEEP

The Applicants claimed that the Respondents' conduct infringed their trade marks, was in breach of the Australian Consumer Law and amounted to passing off. The Applicants sought interlocutory relief restraining the Respondents from marketing and selling the Respondents' products using the word 'RestQ' and/or using packaging with 'RestQ' on it. The Applicants also sought orders with respect to the Respondents' social media accounts and website all of which made use of the name 'RestQ'.

Unsurprisingly, the Respondents argued that there was no serious question to be tried; damages was an adequate remedy; if interlocutory relief was granted, it would really be final relief because the Respondents would have to rebrand; and interlocutory relief was not in the public interest.

As is the way in packaging cases, there was analysis of the similarities and differences between the packaging of both products. Despite some notable differences (e.g. the predominant colour in the Respondent's packaging being different to the Applicant's and the fact that the Respondent's packaging refers to 'Martin & Pleasance' and has the company's logo), his Honour concluded that there was a serious question to be tried, with respect to the passing off and Australian Consumer Law claims. An interlocutory injunction was granted relying on these grounds.

With respect to the passing off claim, his Honour observed the following, with respect to the misrepresentation element of the claim:

> **Of relevance to both a case involving an alleged infringement of a trade mark and passing off is the prospect that a decision by a competitor to select a particular get-up of another product and borrowing aspects of the get up of that other product may, in some circumstances, be presumed to have the effect of appropriating part of the reputation of that other product. The application of the presumption is not restricted to circumstances in which the competitor is found to have been deliberately dishonest…**

This observation is particularly important as it confirms the relatively low threshold for enacting the presumption. A finding of deliberate dishonesty is not required, a lesser intention based on knowledge of the market and an intention to benefit by borrowing aspects of a competitor's get up, may be enough in establishing unlawful passing off.

His Honour did not make a decision based on the trade mark infringement claim (this wasn't necessary given the earlier findings), but did look at this briefly, offering one particularly interesting insight. He stated that it would most likely have been found that the trade marks 'Rescue' and 'RestQ' were deceptively similar given the similarity of the marks and two product lines. Submissions as to phonetic differences because of the 't' would have been rejected. Much like the 10% copyright infringement myth, this serves as a reminder to traders that relying on a single letter to distinguish trade marks is unlikely to cut it and as always a comparison of the marks in their entirety is crucial to a finding of trade mark infringement.

The decision was unsuccessfully appealed in *Martin & Pleasance Pty Ltd v A Nelson & Co Ltd* [2021] FCAFC 80, Jagot, Yates and Jackson JJ agreeing with the primary judge's conclusions on prima facie case and balance of convenience, being the key points considered on appeal.

The interlocutory decision acts again as a caution to those traders who seek to 'borrow' aspects of the get up of a competitor's product and that doing so may bring such conduct within the realms of passing off, the Australian Consumer Law and potentially amount to trade mark infringement.

The Breach of Contract Case

The Court was faced with an interesting situation in *A Nelson & Co Ltd v Martin & Pleasance Pty Ltd (Stay Application)* [2021] FCA 754, which involved a breach of contract claim by Nelson against Martin & Pleasance, related to the intellectual property case. The Respondents sought a stay of the Applicants' proceeding relying on an exclusive jurisdiction clause contained in clause 32 of a distribution agreement between Nelson and Martin & Pleasance. It is a fairly standard clause, providing:

> **Governing law and jurisdiction**
>
> *This Agreement is subject to the English law and the parties irrevocably agree that any disputes will be subject to the exclusive jurisdiction of the English courts and that either party will be entitled to enforce any such judgment in any such jurisdiction as appropriate.*

The issue in dispute arose from the fact that Nelson's breach of contract case is subject to clause 32 while the intellectual property allegations made by it and Bach are not. The Respondents conceded their liability to the Applicants on the intellectual property allegations but the question of damages remains to be determined.

The Respondents contended that Nelsons' contractual claim should be stayed and pursued before the English courts. This would result in a fragmented proceeding with the English courts determining the contractual dispute (including contractual damages) and the Federal Court of Australia determining the Applicants' entitlement to damages for breach of their intellectual property rights.

Perram J explained that the law of exclusive jurisdiction clauses requires clause 32 to be enforced unless the Applicants show strong reasons why it should not be. The Applicants were able to demonstrate strong reasons why the stay should not be granted and the stay application was refused.

For context, it is helpful to know the basis for the breach of contract claim. Under the distribution agreement, M&P was to distribute Nelson's RESCUE sleep remedy products in Australia. The agreement had a number of relevant provisions including relating to payment, registration of the RESCUE products with the Therapeutic Goods Administration (**TGA**) (with an obligation on M&P to transfer the registration to Nelson's nominee at the end of the distribution agreement) and a non-compete.

Nelson alleged that M&P had not paid invoices totalling over $1 million; it had breached the non-compete clause by taking preparatory steps for the launch of its RESTQ products while the distribution agreement remained on foot; M&P failed to transfer the TGA registrations of the RESCUE sleep products to its nominee; and M&P breached both its fiduciary duty and implied duty to act in good faith.

In reaching his conclusion, Perram J considered the intellectual property case and the contractual dispute and ultimately found that they were intertwined.

In particular, the failure to transfer the TGA registrations meant Nelson couldn't sell its RESCUE products which increased its damages from loss of sales and gave M&P a head start for its own RESTQ products.

M&P argued that to avoid inconsistent findings between the two proceedings, the best thing was to stay the proceeding here, wait for the English court to make its decision which would lead to issue estoppel, which would then apply to the balance of the case when it was revived here. On the issue of fragmentation, M&P said that this was on Nelson because it was Nelson's agreement and it could have started the trade mark infringement case in England.

In addition to the obvious inconvenience to the party against whom an exclusive jurisdiction clause is sought to be enforced, his Honour considered inconsistent fact finding and evidentiary issues weighed in favour of refusing the stay. Further, if the English court's fact findings were in relation to collateral facts, no issue estoppel would arise. His Honour did not accept that Nelson was the author of any fragmentation problem given that the Applicants had sought an urgent interlocutory injunction to stop the Respondents from using RESTQ. It wasn't practical to do this in the English court even if the English court had authority to make orders in relation to Australian trade marks.

Ultimately, the risk of fragmentation provided a strong reason not to grant the stay sought by the Respondents and an order was made that the Respondents bear the costs of the stay application.

This decision gives good guidance on the factors to be considered in determining whether to enforce an exclusive jurisdiction clause. While parties to a contract will inevitably advocate that governing law and jurisdiction clauses should be that of their own jurisdiction, the enforceability of such clauses should not be assumed, particularly in circumstances where there is more than one proceeding on foot.

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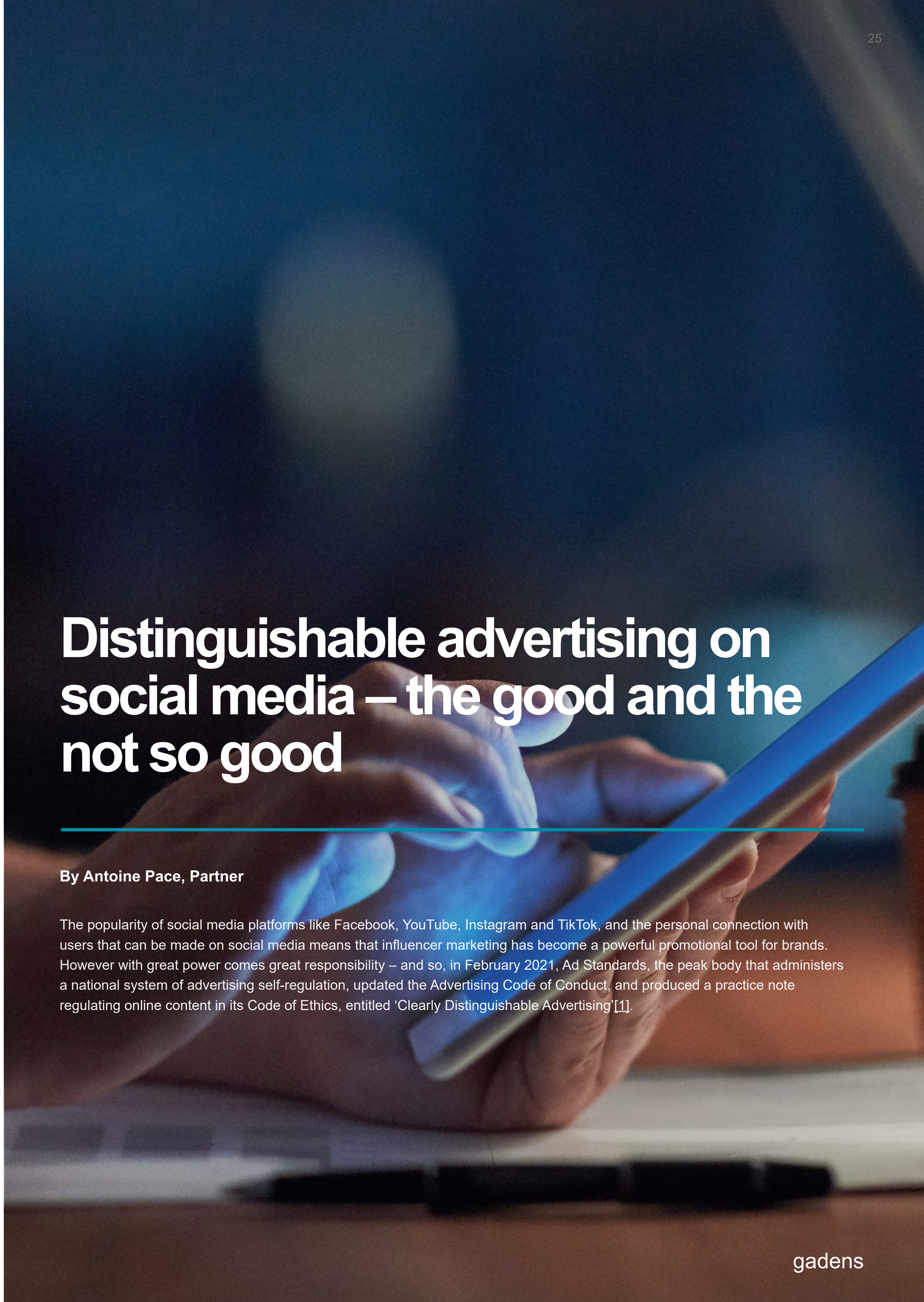

Distinguishable advertising on social media – the good and the not so good

By Antoine Pace, Partner

The popularity of social media platforms like Facebook, YouTube, Instagram and TikTok, and the personal connection with users that can be made on social media means that influencer marketing has become a powerful promotional tool for brands. However with great power comes great responsibility – and so, in February 2021, Ad Standards, the peak body that administers a national system of advertising self-regulation, updated the Advertising Code of Conduct, and produced a practice note regulating online content in its Code of Ethics, entitled 'Clearly Distinguishable Advertising'[1].

According to Section 2.7 of the Advertising Code of Conduct[2], advertisers must ensure that advertising and marketing communications are clearly distinguishable as being Advertising. The Practice Note expands on this, saying that:

'Advertisers should be cognisant that, in seeking to make their advertising and marketing communication more engaging, they do not camouflage the fact that it is advertising. Advertising or marketing communication should not be disguised as, for example, news, current affairs, independent market research, user-generated content, private blogs or independent reviews.'

The question of whether or not something on social media is an advertisement, should be clear to consumers. One should be able distinguish between ordinary content on the one hand, and content that is intended as advertising or promotional material on the other. This should not be a matter of detective work.

The Practice Note states:

'Influencer and affiliate marketing often appears alongside organic/genuine user generated content and is often less obvious to the audience. Where an influencer or affiliate accepts payment of money or free products or services from a brand in exchange for them to promote that brand's products or services, the relationship must be clear, obvious and upfront to the audience and expressed in a way that is easily understood (e.g. #ad, Advert, Advertising, Branded Content, Paid Partnership, Paid Promotion). Less clear labels such as #sp, Spon, gifted, Affiliate, Collab, thanks to… or merely mentioning the brand name may not be sufficient to clearly distinguish the post as advertising.'

Despite the clear rule and guidance, recent decisions of the Ad Standards Community Panel[3] suggest that there is still some misunderstanding about the rules for disclosing advertising content. Some recent cases show the good and the bad.

The Good: Case Number 0158-21 – Tourism Australia

The Post in question:

This matter involved a post by Zoe Foster-Blake on Instagram, which featured a video of Hamish Blake and Ms Foster-Blake in various Australian locations. The caption of the post stated:

> **"Making this was complete Stuff of Dreams. My husband and I are the luckiest pigs in Australia getting to shoot (together!) at these breaktaking locations, places we'd always dreamed of visiting (e.g. the Kimberly, pictured) but "never made the time". Plus we get this cute video diary* to remember it all! If you're been thinking about - or putting off - a trip to one of Australia's many epic spots, well, this is your year. Time to go big, Australia. @seeaustralia #holidayherethisyear #BIG**
> ***Incredible TV ad created by the total best in the biz"**

The Decision:

The Panel found that the post constituted an advertisement for the purpose of the Code (particularly because Ms Foster-Blake is a known ambassador for Tourism Australia). It also found that there was no contravention, because the video in the post was a shared television commercial which contained clear branding for the advertiser. The Panel then noted that while the post did not include hashtags such as **#ad** or **#sponsored**, the caption for the post included references to the material being a TV advertisement, and also detailed Ms Foster-Blake's participation in advertisement itself.

The Take-Away:

This decision demonstrates that although advisable, it is not always necessary to use the tag ***#ad*** or ***#sponsored*** or similar to show that a social media post is actually advertising content, provided that the context is clear.

The Bad: Case Number 0222-21 – Go Bare Skin

The Post in question:

This matter related to a post on TikTok. The post featured the influencer using scissors, clippers and tweezers to trim facial hair. After some footage and a voice over expressing frustration the voice-over says:

> **"So I'm going to go online and find my very own at home device which I found a good price on the Priceline website".**

The influencer is then shown entering the store and purchasing the product. The voice over says:

> **"So naturally I ran into Priceline, found the Go Bare laser hair removal device. And took it straight home with me." She is then seen using the device. The voice over says: "The Go Bare device has one to seven intensity level settings and is available from selected Priceline. You get six hundred flashes in one device which is 20 years of laser hair".**

The influencer argued that the TikTok post was not an advertisement because she had not been paid to promote or share the product on TikTok. The advertiser submitted documents to show that it had engaged the influencer to post content on Instagram, but that the arrangement did not include posts on TikTok, and that the TikTok post was outside that agreement and was placed on TikTok by the influencer on her own initiative.

The Decision:

The Panel found that the post did amount to advertising. The Panel also found that although not explicitly posted under the contract, the TikTok post was closely related to the commercial relationship between the brand and the influencer, and was not organic content created without incentive.

The Panel concluded that the post was not clearly distinguishable as being an advertisement and so as in breach of Section 2.7 of the Code.

The Take-Away:

There are times when an influencer will post content that is actually an advertisement, not necessarily because they are paid to do so, but perhaps motivated by other factors, including to further enhance their relationship with the advertiser or demonstrate value, by providing free content on other platforms. This case demonstrates that it is important for advertisers to ensure the influencers they have engaged understand the disclosure requirements of the Code, whether the content that they are posting is paid or unpaid.

[1] AANA Code of Ethics, Section 2.7 - Clearly Distinguishable Advertising - http://aana.com.au/wp-content/uploads/2020/09/AANA_Code_of_Ethics_PracticeNote_Effective_February_2021.pdf

[2] http://aana.com.au/wp-content/uploads/2020/09/AANA_Code_of_Ethics_Effective_February_2021.pdf

[3] https://adstandards.com.au/about/community-panel

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Do you have to fight for the ‘Right to Repair’?

Considering the Productivity Commission’s inquiry into the Right to Repair

By Hazel McDwyer, Partner and Joseph Abi-Hanna, Associate

To repair or not to repair? That is the question consumers ask themselves when products are in need of repair. While consumers have certain rights to have defective products repaired under the Australian Consumer Law (**ACL**), the Productivity Commission (**Commission**) is currently looking into the costs and benefits of introducing a broader Right to Repair.

In the Right to Repair – Productivity Commission Draft Report (June 2021) (**Report**) dated June 2021, the Commission found that consumers encounter barriers when seeking to repair certain products. It made certain draft recommendations to address these barriers. It remains to be seen which of these recommendations will be included in the final report, which will be handed to the Australian Government by 29 October 2021.

Manufacturers and suppliers should take note of these recommendations, as their implementation may have a significant impact on consumer rights, repair obligations, repair markets and intellectual property protections.

What is the Right to Repair?

The Commission acknowledged that there is no accepted definition of the Right to Repair, but it essentially involves ‘the ability of consumers to have their products repaired at a competitive price using a repairer of their choice’ (p.36 of the Report).

The concept of a Right to Repair has been prevalent for around a decade in certain overseas jurisdictions, such as the US and EU. By comparison, it is relatively new in Australia.

In June 2021, the Australian Parliament passed the *Competition and Consumer Amendment (Motor Vehicle Service and Repair Information Sharing Scheme) Act 2021*, which introduces a mandatory scheme for the sharing of motor vehicle repair information. This Act will come into effect on 1 July 2022 and will aim to establish a Right to Repair framework in the motor vehicle and services industry.

The ACL

The ACL contains several consumer guarantees which are relevant to the repair of products, including that:

- products will be of acceptable quality, which includes that the products’ durability will be acceptable to a reasonable consumer; and
- the manufacturer will take reasonable action to ensure that facilities for the repair of the products, and product parts, are reasonably available for a reasonable period after the supply of the products.

If a product fails to comply with these consumer guarantees (among others) and the failure is not major, a supplier can choose to repair or replace the product or provide a refund to the consumer to remedy the failure. In the event of a major failure, the consumer can choose to replace the product or obtain a refund.

Barriers to repair

While the Commission considers that consumer guarantees largely work well, it states that consumers encounter challenges when seeking to access remedies under the ACL. Specifically, the ACL does not provide guidance as to the acceptable level of durability for various products. Similarly, it is unclear how long manufacturers are required to make repair facilities and spare parts available for after supplying the products.

The lack of clarity on these matters makes it challenging for consumers, suppliers and manufacturers to understand whether consumer guarantees apply to certain products. This constitutes a barrier to repair for consumers, especially when combined with other practical difficulties faced by customers when enforcing their rights under the ACL.

Other barriers to repair include:

- manufacturers can prevent third parties from obtaining components, tools and information which third parties require in order to undertake repairs on certain products. This may cause consumer harm in some repair markets (e.g. agricultural machinery and mobile phones and tablets);
- manufacturers' use of technological protection measures (**TPMs**) that protect embedded software and code to prevent third parties accessing embedded repair data;
- manufacturers' contractual terms may deter consumers from seeking to have products repaired by a third party, especially where manufacturers state that certain warranties will be void if a product is repaired by a third party; and
- copyright laws that limit third-party repairers from obtaining repair information (such as repair manuals and diagnostic data).

Draft Recommendations

The Commission made draft recommendations to overcome these barriers to repair, including:

- the Australian Competition and Consumer Commission (**ACCC**) should formulate and publish estimates of the minimum anticipated durability for common household products;
- State and Territory Governments should establish alternative dispute resolution processes to deal with complaints regarding consumer guarantees which may include mandatory conciliation or direction powers (similar to those in place in South Australia and New South Wales);
- specified consumer groups should be permitted to lodge expedited 'super complaints' with the ACCC on structural issues relating to access to consumer guarantees;
- the text for warranties against defects in relation to the supply of goods under regulation 90 of the *Competition and Consumer Regulations 2010* (Cth) should be amended to include a statement that a consumer is not required to use authorised repair services or spare parts to be entitled to rely on the consumer guarantees under the ACL; and
- amendments should be made to the *Copyright Act 1968* (Cth) to enable third-party repairers to more readily access repair information, either by:
  - establishing a fair use exception or a fair dealing exception regarding repairs; or
  - enabling repairers to lawfully obtain tools for accessing repair information which is protected by TPMs.

The Commission also examined the issues of e-waste and premature product obsolescence and made draft recommendations relating to e-waste. At this stage, the Commission is seeking further information on premature product obsolescence, but found that it is unlikely to be a significant problem in Australia.

Conclusion

In the terms of reference to the inquiry, the Australian Government stated that consumers and third parties are prevented from repairing products because they are unable to access the tools, parts or software they require and this gives rise to a lack of competition in repair markets. It is likely that the Government will take some form of legislative or regulatory action to address this problem.

It is unclear whether this action will be consistent with the recommendations which the Commission makes to the Australian Government in the final report (or whether these recommendations will be similar to the draft recommendations set out above).

Ultimately, the Commission's final report is unlikely to be the last thing that we hear about the Right to Repair in Australia.

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Guidance on unconscionable conduct law – Ali vs ACCC

By Timothy Buckley, Associate and Alberta McKenzie, Lawyer

'Unconscionability' is defined as conduct not done in good conscience or conduct against conscience by reference to the norms of society. Understandably, then, the relevance of the law prohibiting unconscionable conduct is unlikely to be immediately obvious to most businesses and their appraisal of day-to-day company conduct. However, a growing body of case law indicates that businesses must not forget the law of unconscionable conduct when balancing consumer interests as against those of the business: *Ipstar Australia Pty Ltd v APS Satellite Pty Ltd* [2018] NSWCA 15; *Australian Competition and Consumer Commission v Quantum Housing Group Pty Ltd* [2021] FCAFC 40 (***Quantum Housing***).

In the recent case of *Ali v Australian Competition and Consumer Commission* [2021] FCAFC 109 (**Ali**), the Full Court of the Federal Court of Australia (**Full Court**) provided some further commentary on the law of unconscionable conduct. In the context of a car wash franchisor's conduct towards its franchisees the Court confirmed an earlier decision of the Full Court in *Quantum Housing*, which held that pre-existing vulnerability or disability is not a necessary element of statutory unconscionable conduct.

Background

Ali was an appeal from 'a long and careful judgment on liability' in *Australian Competition and Consumer Commission v Geowash Pty Ltd (Subject to a Deed of Company Arrangement) (No 3)* [2019] FCA 72 in which the Court held that Geowash Pty Ltd (the franchisor) (**Geowash**) and its director/sole shareholder Ms Ali and national franchising manager, Mr Cameron, engaged in a dishonest system of business conduct by way that they represented the business opportunity that they made available to franchisees and in the way that they extracted money from those prospective franchisees.

Ms Ali and Mr Cameron (**Appellants**), but not Geowash, appealed the finding of unconscionable conduct and argued that their conduct, and by extension Geowash's conduct, could not properly be said to have been unconscionable at law.

The Appellants' characterisation of their conduct

At trial and on appeal, the Appellants sought to characterise Geowash's conduct as the simple lawful conduct of a franchisor interacting with franchisees who were sophisticated commercial operators. Prospective franchisees were offered the opportunity to engage in a successful car-wash franchise, and operating car-wash businesses were delivered to franchisees. Sums invoiced by Geowash to franchisees were in accordance with Geowash's prior representations, and the Appellants' understanding of the terms of the franchise agreement and the legal advice which they believed they had received and could rely upon.

In defence to the ACCC's unconscionability claims, the Appellants maintained that their representations made to franchisees about Geowash's charging practices, and their subsequent dealings, were consistent. So, even if it were found that Geowash had charged inconsistently with the franchise agreement (which was disputed), it could not be found to have engaged in unconscionable conduct because its dealings were honest, consistent with their prior representations, and in accordance with legal advice.

In that regard, the Appellants could not be found to have been knowingly concerned in or party to unconscionable conduct. That is, on the Appellants' submissions, they had engaged in usual, acceptable business practices and done nothing wrong.

Federal Court's decision

The Court saw their conduct otherwise. In finding that Geowash's dealings with franchisees amounted to unconscionable conduct, the Court highlighted elements of dishonesty, trickery and deception in Geowash's business model:

- **Costs Charged to Franchisees –** Geowash invoiced and obtained funds from franchisees that were justified on the basis of what it would actually cost to set-up the franchise. Contrary to those representations, those invoiced sums did not reflect set-up costs, but rather an assessment made by the Appellants as to what franchisees were willing to pay.
- **Business Model –** the Court found that, through engaging in the charging practices described above, Geowash's business model was inherently dishonest. That is, Geowash's charging practices did not reflect a case of a breach of a franchise agreement, or a failure by the Appellants to properly understand the franchisor's legal obligations, but rather reflected a considered practice to procure funds from unsuspecting franchisees.
- **Vulnerability –** the Court did not find that all of Geowash's franchisees were vulnerable by reason of a lack of experience or sophistication. Rather, the Court found that the nature of Geowash's conduct would likely result in Geowash taking advantage of any trusting franchisee, even one who had been in business before.

Points of note in the Full Court's decision

In dismissing the appeal, the Full Court, comprised of Chief Justice Allsop and Justices Besanko and Perram, provided useful commentary on statutory unconscionable conduct:

- **Systems case –** the Appellants submitted the primary judge impermissibly extrapolated from conclusions reached about Geowash's conduct with respect to seven franchisees to make the broader conclusion that Geowash's conduct constituted an unconscionable system or pattern of behaviour. The Full Court rejected that argument, finding that, while there was no precise or scientific system, there was a common pattern of behaviour, which included people being consistently misled to dishonestly extract money from people.
- **Dishonesty –** Ms Ali and Mr Cameron's position was that, even if Geowash's business model was dishonest, that dishonesty was insufficient to establish unconscionable conduct. The Full Court rejected that submission, stating at [235] that:

> **"… The dishonest dealing with people (who may not be in any way gullible) can be characterised as unconscionable. It is unconscionable because it offends the conscience to take advantage of the requisite degree of trust given by counterparties in business, which may, thereafter, place those persons in a position of financial vulnerability."**

- **Lack of vulnerability –** by reference to the High Court's decision in *Australian Securities and Investments Commission v Kobelt* [2019] HCA 18 (***Kobelt***), the Appellants raised numerous issues as to whether the franchisees had the requisite vulnerability to ground a finding of unconscionable conduct.

The Full Court confirmed its earlier interpretation of *Kobelt* articulated in *Quantum Housing* that pre-existing vulnerability or disability is not a necessary element of statutory unconscionable conduct.

Conclusion

The decision in *Ali*'s case highlights just how much care needs to be taken when engaging with consumers and those in a weaker bargaining position. While Geowash engaged lawyers to prepare their legal documents they did not take advice on the effect of them or how to act in accordance with them when engaging with consumers. That is perhaps unsurprising given the finding of dishonesty in *Ali*. However, it indicates that honest enterprises might avoid potentially falling foul of the prohibition on unconscionable conduct when engaging with consumers by taking advice early and in order to guide that engagement.

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Maximising loyalty programs

By Breanna Davies, Special Counsel

While loyalty programs are a valuable way to reward and retain customers, there are many other potential benefits that organisations may not be taking advantage of. Loyalty programs also provide access to a large customer database, and the data collected from those customers regarding their spending habits and choices.

'Loyalty Program Reviews' conducted by KPMG have shown that 88% of organisations run an 'earn & burn' loyalty program, but that only 6% of such organisations actively leverage their programs to drive sales objectives.

Firstly, from the legal perspective, when collecting data from customers there are some basic principles you need to think about:

- Complying with Privacy Laws in regards to Personal Information collected and stored and how you can use it for direct marketing.
- Not being in breach of the Spam Act when communicating with those customers.
- Ensuring the confidentiality of your customer database is protected (both internally through your employees and externally, through your service providers) – it is one of your most important intangible assets and your contractual protection is key.

Many of our clients who have loyalty programs explain that they feel overwhelmed by the challenges that arise with analysing the data that is collected and figuring out how they can use it to grow profits.

> **In fact the same KPMG research demonstrated that 40% of organisations don't perform regular analytics on that collected data.**

Data analytics is a growing industry, but also has its own legal and ethical issues. Organisations don't want to use this data in a way that may overwhelm or alienate their customers.

If you have any questions regarding protecting, valuing or maximising your customer database please reach out to us.

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