



Anderson Rice News Autumn 2007 Edition

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Anderson Rice News

Recent Appointments

Michael Bromby

The Commercial department at Anderson Rice welcomes the appointment of a new Partner, Michael Bromby.

Since 1978, Michael has acted for a range of clients from individuals through to family businesses and corporations, government and statutory authorities and business operators in the retail, manufacturing, automotive, advertising, airline, travel, entertainment and other service industries. He had previously been a partner with Anderson Rice for a number of years until 2001.

He has now seen the light and has happily rejoined us.

Michael's client base remains diverse and includes various property developers, an international travel business, a sports management company and a number of retail businesses including restaurants and franchises. In light of recent developments in the superannuation area, Michael is overseeing an expanding estate planning and private client practice. There has never been a more important time for our clients to re-evaluate their current financial planning and general affairs and review their wills.

Gus Catalogna

The firm is pleased to announce that Gus Catalogna has joined John Lancefield as a Partner in the Commercial Litigation department.

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Employee Abuse of Email and Internet *Does your workplace monitor internet use?*

Chris Pollard

Two recent decisions of the New South Wales Australian and Industrial Relation Commissions have been handed down where employees have been dismissed for accessing pornographic material by email and internet. These cases highlight the requirement for good communication and an extensive workplace policy in relation to the use of internet and emails in the workplace.

Bunlong v NCR Australia Pty Ltd (2006) NSW IR Comm

Mr Bunlong was dismissed by NCR Australia for breach of its email policy after pornographic images were found on his computer.

Mr Bunlong issued an application for unfair dismissal and argued that he had "been in a work culture" where pornographic emails were regularly shared. He argued that it was unfair to single him out for discipline/dismissal.

However, despite this culture, Mr Bunlong conceded that his actions did breach the Employee Code of Conduct regarding the use of emails and internet.

The matter went before Commissioner Murphy, who rejected Mr Bunlong's defence of being caught up in a workplace culture.

Mr Bunlong's application for unfair dismissal was dismissed because the pornographic material was extreme, the employer had warned and then dismissed another employee for similar conduct, and because a "reasonable employee" would recognise a risk in accessing this type of material.

The Appeal

Mr Bunlong appealed the decision to the Full Bench of the New South Wales Industrial Relations Commission and was successful. In turn he was reinstated.

The Full Bench accepted that Mr Bunlong had been caught up in a culture in which pornographic emails were exchanged and that senior managers not only condoned the practice but actively participated in it.

The Full Bench also noted that following the earlier dismissal of another employee for similar conduct, there had been no communication providing a warning to the employees and putting them on notice of the consequences of accessing or storing pornographic material on their computers.

Furthermore, as the Full Bench found that the flow of pornographic emails continued unabated it was held that Mr Bunlong's dismissal was harsh.

[Wake v Queensland Rail \(AIRC\) \(PR 974391\)](#)

A different decision was made by the Australian Industrial Relations Commission ("AIRC") in this matter, which had similar facts to the Bunlong case.

In this case, the Full Bench overturned a decision of Commissioner Baker who found that the termination of Mr Wake's employment for use of emails containing pornographic images, was harsh.

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The Full Bench held that the employer in this case had taken comprehensive steps to communicate its expectations and train its employees in a policy concerning the use of emails and internet regarding pornographic material.

Initially, the Commissioner considered that the material was intended to be humorous and was not of a sexual nature and hence, did not breach the employer's policy.

Also, on the basis that the investigation into Mr Wake's behaviour took five months by the employer, it was held that his dismissal was harsh.

The Appeal

Queensland Rail appealed this decision to the Full Bench of the AIRC.

The AIRC overturned the initial decision and stated that Queensland Rail was entitled to take "firm line" due to the numerous comprehensive steps it had taken to implement its policy and the employee's flagrant breach of this policy.

The Full Bench stated that it was necessary for employers to take steps to eradicate such material and that the employer had every right to do so.

In light of this, the Full Bench upheld the appeal and overturned the initial findings and reinstatement order.

IMPLICATIONS

Although these two cases result in different outcomes for each employee, they highlight the importance that employers should comprehensively and reasonably train employees about email and internet policy.

Furthermore, if a employee breaches this policy, an employer must as soon as possible investigate and act upon his or her behaviour.

It should also be noted that where an employer fails to actively promote and enforce appropriate email policy, then its ability to dismiss employees for such breaches may be limited.

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Insolvent Trading

Philip Barton

Are Directors Liable to Creditors?

Can a civil action be sustained against the directors of a company for trading whilst insolvent? This question is one often asked in business circles because the Phoenix is still alive and well.

Under the *Corporations Act 2001* (Cth) ("the Act"), company directors have a statutory duty to prevent insolvent trading. Insolvency is the inability of a company to pay its debts as and when they become due and payable.

According to section 588G(1) of the Act, a person has a duty to prevent insolvent trading by a company if:

- (a) a person is a director of a company at the time when the company incurs a debt; and
- (b) the company is insolvent at that time, or becomes insolvent by incurring that debt, or by incurring at that time debts including that debt; and
- (c) at that time, there are reasonable grounds for suspecting that the company is insolvent, or would so become insolvent, as the case may be; and
- (d) that time is at or after the commencement of this Act.

Section 588G(2) states that by failing to prevent the company from incurring the debt, the person contravenes section 588G if:

- (a) the person is aware at that time that there are such grounds for suspecting that the company is insolvent, or would so become insolvent; or

- (b) a reasonable person in a like position in a company in the company's circumstances would be so aware.

If the elements of insolvent trading are established, there is a breach of the Act unless the director can establish under section 588H, that the director:

- (a) had reasonable grounds to expect, and did expect, that the company was solvent at the time when the debt was incurred, and would remain solvent even if it incurred that debt and any other debts that it incurred at that time, or
- (b) had reasonable grounds to believe, and did believe:
 - (i) that a competent and reliable person (the *other person*) was responsible for providing to the first-mentioned person adequate information about whether the company was solvent; and
 - (ii) that the other person was fulfilling that responsibility; and
 - (iii) expected, on the basis of information provided to the first-mentioned person by the other person, that the company was solvent at that time and would remain solvent even if it incurred that debt and any other debts that it incurred at that time, or
- (c) took all reasonable steps to prevent the company from incurring the debt, having regard to:

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- (i) any action the person took with a view to appointing an administrator of the company; and
 - (ii) when that action was taken; and
 - (iii) the results of that action, or
- (d) because of illness or for some other good reason, did not take part at that time in the management of the company.

Section 588G(3) goes further and states that a person commits a criminal offence if:

- (a) a company incurs a debt at a particular time; and
- (aa) at that time, a person is a director of the company; and
- (b) the company is insolvent at that time, or becomes insolvent by incurring that debt, or by incurring at that time debts including that debt; and
- (c) the person suspected at the time when the company incurred the debt that the company was insolvent or would become insolvent as a result of incurring that debt or other debts; and
- (d) the person's failure to prevent the company incurring the debt was dishonest.

That is, if a director is guilty of insolvent trading and his or her conduct was also dishonest under section 588G(2), the director may be in breach of section 588G(3), a breach of which incurs criminal penalties.

Only the Australian Securities and Investments Commission (ASIC) can institute proceedings under these sections.

The starting point for any aggrieved party is to lodge a complaint with ASIC highlighting the alleged breaches of the Act. ASIC then investigates the complaint and if it finds that there may be breaches of the insolvent trading provisions, then *it* will institute proceedings against the relevant directors.

Contravention of section 588G(2) is subject to the civil penalty provisions. If a court on the application of ASIC finds that a director is guilty of insolvent trading under section 588G(2), it *must* make a declaration of contravention. Once a declaration has been made, ASIC can then seek a pecuniary penalty order of up to \$200,000 for individual directors or one million dollars for corporations or an order disqualifying the director from managing corporations. The court can also exercise its discretion to order compensation be paid to the debtor company, limited to the amount of the loss or damage resulting from the insolvent trading. Liquidators may intervene in such applications.

Once a declaration of contravention has been made, and if the administration of TIG proceeds to winding up, under section 588M of the Act both the liquidator and creditors can apply to recover compensation from directors if a breach of sections 588(2) or 588G(3) has been established. Either:

- (a) the company's liquidator may recover from the director, as a debt due to the company, an amount equal to the amount of the loss or damage; or
- (b) the creditor may recover from the director, as a debt due to the creditor, an amount equal to the amount of the loss or damage (with the liquidator's consent).

Proceedings under section 588M must be brought within 6 years of the date of the start of the winding up.



However, according to section 588U, a creditor of a company that is being wound up cannot begin proceedings under section 588M if (most relevantly):

- (a) the company's liquidator has begun proceedings under section 588M in relation to the incurring of the debt; or
- (b) the company's liquidator has intervened in an application for a civil penalty order against a person in relation to a contravention of subsection 588G(2) in relation to the incurring of the debt.

Summary:

1. A director has a duty to prevent insolvent trading.

2. A director will not be found to be in breach of the insolvent trading provisions if he or she satisfies an exception in section 588H.
3. If you believe that directors have engaged in insolvent trading, then lodge a complaint with ASIC.
4. ASIC will institute proceedings against any directors it believes may have engaged in insolvent trading.
5. If a court finds that the directors breached either section 588G(2) or 588G(3) and TIG is in the process of or has been wound up, a creditor can apply to recover compensation against the directors (with the liquidator's consent).

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CASE NOTE

Tim Donaghey

[Woolworths Ltd v Banks \[2007\] NSWSC 45 \(24 January 2007\)](#)

Background

Mr Paul Banks (**‘employee’**) worked for Woolworths Ltd from July 2002 until August 2006, pursuant to a written contract. From August 2006, the employee and Woolworths entered into a further written contract (**‘Service Agreement’**), the effect of which appointed the employee as senior regional property manager. The employee gave notice of termination of the Service Agreement on 17 November 2006. He ceased employment on 12 January 2007.

The Service Agreement contained provisions to the effect of:

- a. requiring the employee not to disclose *confidential information* (cl 5); and
- b. a clause providing the power of election to Woolworths, in electing to *restrain the employee* from being engaged by, or concerned with a ‘Competitive Business’. The term ‘Competitive Business’ was defined as any business with which Company competes in the defined area of Australia and New Zealand (cl 10).

On 21 December 2006, (prior to the end of the employee’s notice period) Woolworths exercised the option in the service agreement, and elected pursuant to the Service Agreement to invoke a six-month restraint. The employee commenced work with Myer Ltd on 14 January 2007, in the position of general manager, property. Woolworths sought injunctive relief in the NSW Supreme Court against the employee, on the basis of an alleged contravention of the restraint in the Service Agreement.

Findings of the Court

Approach to interlocutory relief in this case

Justice Robert C McDougall of the Supreme Court considered the approach which the Court should take in circumstances where:

- the issue of a ‘serious question’ to be tried, which included whether Myer was a ‘Competitive Business’ within the meaning of the Service Agreement;
- whether the protection contained in the restraint in cl 10 of the Service Agreement is reasonable, and therefore valid and enforceable, having regard to the danger of misuse of confidential information; and
- discretionary factors, including the balance of convenience.

Serious question to be tried – enforceability of restraints

The question of whether Myer’s business was a Competitive Business was addressed mainly by a witness for the employee. That witness was Mr Travers a HR employee of Myer, who gave uncontroverted evidence asserting that Myer and Woolworths do not compete as department stores, and distinguishing Myer’s position in the market from Woolworth’s subsidiary ‘Big W’, which was a discount department store.

As to any competition between Myer and Woolworths in respect of the retail space occupied, there was no evidence that at August 2006, the two companies were likely to be in competition for similar retail space. Evidence was led that each company had a distinct need for retail space and that Myer’s space requirements were far in excess of those required for Big W. On this basis, the two businesses were not likely to compete.

The Court noted that the confidential information affected by cl 5 of the Service



Agreement which came into the employee's possession related to Woolworths' supermarket business. There was evidence that the confidential information is relevant also to the Big W business. His Honour described the competition between the two companies, Woolworths and Myer, as limited, and thus the competition likely to result was also limited.

Finally, there was evidence that the current chief executive of Myer, Mr Bernie Brooks was subject to a restraint similar to the employee, when he worked at Woolworths prior to taking his role at Myer. Mr Travers gave evidence which was not controverted that Woolworths had not sought to enforce Mr Brooks' restraint. The submission was made that this was an indication that Woolworths did not consider Myer to be a Competitive Business.

Discretionary issues

His Honour referred to authorities concerning an applicant's entitlement to interlocutory relief, where the entitlement to ultimate relief is uncertain. His Honour noted that the interlocutory relief in this case would amount to final relief, as Woolworths would in substance obtain what it seeks and a full hearing would not be possible within the six month period of the proposed injunction,

This entitlement to relief must be balanced against the prejudice done to the party against whom the injunction is sought: *Kolback Securities Ltd v Epoch Mining NL* (1987) 8 NSWLR 533.

Rationale of the Decision

Established authority such as *Herbert Morris Ltd v Saxelby* [1916] 1 AC 688, means that the primary considerations when examining a restraint are often:

- the area and/ or incidence of the restraint; and
- the duration of that restraint.

This case addresses other fundamental matters. The first of these is whether a restraint against competition must apply, where the interaction between the employer seeking to restrain its former employee, and the new employer is limited, or not immediately tangible. The second is whether the employer may seek a restraint in circumstances where is no clear indication of an actual or threatened breach of confidence, or a misuse of confidential information.

Rather than (as is the case with many restraint cases) considering the decision in terms of the drafting of the restraint entered into by the parties, this case contains a different message. The message is that when legal proceedings are contemplated, the applicant for relief should examine its case critically, to determine whether the facts give rise to any prospects of success at all.

For further information contact:

This article is brought to you by Tim Donaghey, Employment and Industrial Law barrister. Tim regularly contributes to the Anderson Rice newsletter by providing updates on recent case law and legislation. Tim can be contacted on tim.donaghey@vicbar.com.au.

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Changes to Australian Wine Law

Jacqui Guthridge

Do you celebrate with "Champagne" or "Sparkling Wine"?

Australia is currently renegotiating an agreement with the European Community that will further restrict Australian use of traditional descriptive terms for wines.

The EC/Australia Wine Agreement

In 1994, Australia ratified an agreement with the European Community (herein the "EC/Australia Wine Agreement") whereby it afforded greater protection to "geographical indications" such as Champagne, Port, Sherry, White Burgundy and Chablis.

A geographical indication (GI) is defined in Article 22 of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement as:

"Geographical indications are, for the purposes of this Agreement, indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin."

The EC/Australian Wine Agreement lowered non-tariff barriers to the entry of Australia wines into the European Union (EU), thereby providing Australian winemakers with greater access to the EU wine market. In exchange for this access, the EU achieved protection for 3000 EU geographical indications in Australia. Protection was afforded despite the fact that most of these indications had no reputation in Australia. Perhaps this was not a fair bargain. However, considering the small size of the Australian market and the success that Australian wines have experienced in Europe, it was a necessary one.

The current negotiations centre around protecting eight additional geographical

indications from France and Italy that were not protected in the 1994 Agreement and include Corbieres (when followed by Boutenac), Cotes de Provence (when followed by Sainte Victoire), Corti Benedettine del Padovano, Erice, I Terreni di Danseverion, Matera, Ribiera del Brenta and Campana.

The EC/Australia Wine Agreement currently provides under Article 6(4) that:

The registration of a trade mark for wines which contains or consists of a geographical indication or a traditional expression identifying a wine ...shall be refused or if domestic legislation so permits and at the request of an interested party be invalidated, with respect to such wines not originating:

- a. in the place indicated by the geographical indication;*
- b. in the place where the traditional expression has been traditionally used"*

The AWBC Act and its application by the Registrar

The above provision is similar to Article 23(2) of TRIPS and was incorporated into Part VIB of the *Australian Wine and Brandy Corporation Act* (AWBC Act). As a result, when considering whether an application to register a mark in respect of wine, the Registrar of Trade Marks must ensure that an application complies with Pt VIB of the AWBC Act by having regard to the Register of Protected Names, a register which lists all protected geographical indicators (GI's) in Australia. This register is available at www.wineaustralia.com/australia/.

If an application mark consists of, or contains a protected geographical indication, traditional expression or ancillary protected expression, an objection will be raised under section 42(b) of the AWBC Act. The applicant will be invited to agree to an endorsement which restricts the use

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of the trade mark to that which meets the requirements of the AWBC Act. If the applicant does not agree to an endorsement, the application will be rejected. In addition, under the AWBC Act, if someone intentionally sells, exports or imports a wine with a false description or presentation, such a breach may result in up to two years jail and a \$60,000 fine.

It is not only foreign geographical indications that are protected by these amendments. The first case to come before the Registrar of Trade Marks concerned an Australian geographical indication: *Re Application by Southcorp Wines Pty Ltd*.

In that case, the Registrar declined to register the mark "*Queen Adelaide Regency*" unless the applicant (Southcorp Wines) would agree to an endorsement restricting use of the mark to wines from the Adelaide region. Southcorp refused and the application was rejected.

The Registrar preferred a strict reading of section 40D of the AWBC Act (1980) holding that the presence of a Registered GI (which is not the GI from which the wine is sourced) anywhere on the packaging of a wine, no matter what the context, is a false description under the Act. Presumably, such an interpretation could lead to the absurd result of the finding of a false geographical indicator where the label states "*This is not champagne*".

However, not all cases will be so clear cut and exceptions will be made. In another recent decision, the Registrar held that the mark "*Feet First*" could be registered, despite "*First*" being a registered GI because the applicant did not intend to use the mark as a false geographical indicator, but in its colloquial sense. This decision is contrary to both Article 6 of the EC/Australia Wine Agreement and section 61 of the Trade Marks Act 1995 which allows opposition to a mark that "*contains or consists of a sign that is a geographical indication*".

Resolving the conflict between rights afforded to trade marks and those attached to geographical indications

The greatest uncertainty exists where there is a conflict between an existing trade mark that is substantially identical to a geographical indication which is now afforded protection under the EC/Australia Wine Agreement. The protection of geographical indications creates a new type of right, very different to the rights associated with trademarks. For instance, a geographical indication cannot be registered, they are not capable of ownership by an individual and they cannot be licensed to third parties.

A good example of a conflict that has arisen in Australia concerns the region and trade mark "*Great Western*". Great Western is a well known sparkling wine produced by Seppelt's. Great Western is also a renowned wine region in the north-west of Melbourne where wines have been made continuously since the early 1950's. The vignerons in this region wish to have a sub-region named Great Western and to prevent winemakers from labelling their wines with "*Great Western*" if less than 85% of the grapes are sourced from the region. This presents a problem for Seppelt's who hope to continue using their trade mark and to have the freedom to source their grapes from wherever they please.

Generally when two parties claim competing rights to a trade mark or other form of intellectual property, the principle of "first in time, first in right" prevails. However, where a trade mark competes with a geographical indication the situation has not been clarified in Australia.

Article 24(5) of the TRIPS Agreement provides that the protection of geographical indications shall not prejudice the eligibility for, the validity of or the right to use a trade mark which is identical or similar to a geographical indication if



the trade mark has been used in good faith before the application of the relevant TRIPS provisions in that Member country or before the geographical indication is protected in its country of origin.

Organisations including the *International Organisation of Wine and Vine*, the *International Association for the Protection of Intellectual Property and International Trademarks Association* consider that the principle of "first in time, first in right" should guide the resolution of conflicts between geographical indications and that geographical indications should not be protected where a mark has acquired reputation prior to the date of the indication. However, these organisations do not have law-making powers. The European Commission however, one of the world's most powerful lawmakers, has long supported and promoted the protection of geographical indications, believing that they should have superior rights over trade marks, even those used and registered in good faith.

The US-Australia Free Trade Agreement

The US has insisted upon the insertion of a provision in its Free Trade Agreements which provides that partner countries may not register geographical indications in the face of prior trade mark rights. As a result of the US-Australia Free Trade Agreement (FTA), the Government inserted Section 40RA into the *Australian Wine and Brandy Corporation Act 1980* ("AWBC Act") which provides that in considering determining a new geographical indication, the Geographical Indication Committee (GIC) must publish a notice setting out the proposed geographical indication and inviting persons to make written objections to the Registrar of Trade Marks based on one of the grounds set out in Section 40RB, these being:

1. The objector holds an existing trade mark registration
2. The objector holds a good faith pending trade mark application that prima facie

meets the registration requirements under the Trade Marks Act 1995

3. The objector holds trade mark rights as a result of having adopted and used in good faith the trade mark (without any registration or attempt to register the trade mark).

If the trade mark is identical or likely to cause confusion with the proposed geographical indication, then there is a basis for objection which will be considered by the Registrar of Trade Marks. The Registrar of Trade Marks is required to determine whether it is:

"satisfied that it is reasonable in the circumstances to recommend to the (GIC) that the proposed geographical indication be determined despite the objection having been made out".

The amendments to the Act provide no guidance as to what factors should be taken into account in determining this, save for a small footnote to section 40RC(3) stating:

"for example, it may be reasonable for the Registrar of Trade Marks to make such a recommendation if the Registrar of Trade Marks is satisfied that the proposed geographical indication was in use before the trade mark rights arose".

The inclusion of the word "may" means that consideration of the footnote is discretionary and it allows for *unregistered* geographical indications.

Future Implications

Therefore, whilst it is clear that the use of a geographical indication prior to trade marks rights arising will give priority to the geographical indication, the converse is not stated to be the case. The amendments give the Registrar of Trade Marks a very broad discretion to recommend that a geographical indication be registered irrespective of an objection being founded. This position satisfies Australia's obligations under the EC/Australia Wine



Agreement, but is at odds with its obligations under the FTA.

The uncertainty in this area of law, created by Australia's conflicting obligations under domestic legislation and international treaties creates difficulties for Australian winemakers, intellectual property lawyers and the Registrar of Trade Marks. An amendment must be made to the AWBC Act which clearly sets out a method for determining the circumstances in which a trade mark containing a geographical indication will be registered. Clearly, the weight of opinion in the IP world has swayed towards the application of the "first in time, first in right" principle, even where a trade mark precedes a geographical indication. However, the amendments must allow for flexibility and

discretion, since strict application of this principle would not always result in equity. For instance, if applied in the Great Western case described above, the principle would preclude Seppelt's from using a mark it has used for 143 years.

In light of the renewed negotiations between Australia and the European Community and the inevitability of further agreements on the international landscape, it is likely that uncertainty in this area will continue for some time. In the meantime, Australian winemakers will need to respond to these restrictions creatively by developing new names and establishing reputations for their own distinctive wine regions.

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