

Corporate & Commercial Newsletter

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SPAM ACT 2003

Introduction

The Spam Act 2003, which is expected to come into force on 11 April 2004 seeks to reduce the amount of junk email and SMS (**Spam**) in Australia.

The Act is designed to tackle the proliferation of unsolicited emails and other electronic messages, such as SMS that have become an internet epidemic. While the Act is unlikely to have much of an impact on Spam originating from overseas, it will have important implications for businesses operating in Australia and engaged in direct email and SMS marketing or other commercial purposes over the Internet.

Overview of the Act

The Act includes the following key features:

- an opt-in regime for the transmission of commercial electronic messages based on the concept of prior consent;
- a requirement that commercial electronic messages contain an unsubscribe facility;
- a requirement that commercial electronic messages contain accurate information about the person who authorised the sending of the messages;
- a prohibition on electronic address-harvesting software and address lists generated using such software; and
- a range of civil sanctions, including warnings, infringement notices, fines and court-ordered penalties.

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Commercial Electronic Messages

Paradoxically, even though the Act deals with Spam, the legislation does not directly refer to any prohibition against Spam. Instead, the Act prohibits 'commercial electronic messages' (**CEM**).

Essentially, to be a CEM, a message must be both:

- an electronic message (which includes email and SMS, but excludes telephone calls); and
- commercial in nature, by promoting any product or supplier.

There is no exemption for small businesses from the application of the Act.

A CEM is a message where one of the purposes of the message is a commercial purpose. This commercial purpose need not be the primary or sole purpose of the message. Presently there are twelve types of commercial purposes specified in the Act, with scope for the regulations to add other purposes to the existing list. The commercial purposes set out in the Act extend to the promotion of suppliers of goods and services. The Act also extends to providers of business or investment opportunities. Websites linked to and from the electronic message can be taken into account in determining whether the message has a commercial purpose. An electronic message does not need to be sent in bulk to fit the definition of a CEM.

Australian Connection

The CEM must have an Australian link in order for the Act to apply.

The concept of 'Australian link' is determined by taking into account factors such as physical presence, organisational presence and the location of the computer, server or device used to access the message.

Consent

A message will be considered 'unsolicited' where the recipient has not consented to receiving the CEM. 'Consent' includes express consent as well as consent inferred from the conduct or relationships of the recipient (for example, existing business relationships).

The mere publication of an electronic address will not amount to consent, except in some circumstances where a relevant message is sent to a person's conspicuously-published work-related electronic address.

Exempted organisations

Messages from government bodies, political parties, religious organisations, charities and some messages from educational institutions are not subject to the unsolicited CEM prohibition or unsubscribe requirement, where the messages relate to goods or services provided by those organisations. Under the Act, the requirement to include accurate sender information still applies.

A similar exception is provided for messages that contain no more than factual information, identification of the source or sponsor of the information. The factual information would need to be information without a commercial purpose. For example, newsletters and bulletins would be considered factual messages for the purpose of the exception.

Enforcement and Penalties.

Enforcement of the Act is delegated to the Australian Communications Authority (**ACA**) under a multi-tiered scheme. The powers of the ACA include issuing formal warnings, seek injunctions and seek investigative and monitoring warrants from the courts.

Under the Act, an individual could be liable for up to a total of \$44,000 for contraventions on a single day, while an organisation could be fined up to \$220,000 in a day. Offenders with a prior record will be penalised up to a maximum of \$220,000 for each day of Spamming by an individual, and \$1.1 million per day for organisations. Compliance with the Act will be monitored and enforced by the Australian Communications Authority.

How will it affect your business?

All businesses must bring their practises into line at the commencement of the Act

While the efficacy of the Australian anti-Spam legislation remains to be seen, it introduces further compliance issues for Australian business. Businesses with the requisite 'Australian link' should conduct a review of the types of electronic messages they send in order to determine which messages can no longer be sent without consent. Businesses must also review which messages will require the inclusion of accurate sender information and which require the inclusion of a functional unsubscribe facility.

Importantly for businesses, if an employee authorises the sending of an electronic message and does so on behalf of an employer, then the business rather than the individual is taken to have authorised the sending of the message. Whether an employee has sent a message on behalf of their organisation will depend on whether that employee has exceeded his or her authority. In other words, if the message was sent within the course of his or her employment then this message may be taken to have been authorised by the organisation.

Therefore, it is important that organisations take positive measures such as restructuring email policy and implementing training regimes to ensure that employees are educated on the new legislative changes.

Businesses should urgently seek advice as to the potential implications of the new legislation and develop appropriate strategies to ensure compliance with the new legislation.

DIRECTOR'S LIABILITY FOR COMPANY TAX

Generally, a breach of tax laws will only result in the prosecution of the company, not the individual company officers. However, the Tax Commissioner may, if he thinks fit, take action against any director or officer of the company.

As a matter of policy, the Tax Office will normally prosecute the company, rather than the directors. However, if the pursuit of the company itself will be unlikely to achieve the desired result, the Commissioner may elect to prosecute the individual company directors and officers who were concerned in or who took part in the management of the company.

Three main circumstances have been identified by the Tax Commissioner where action would be taken **against company directors and officers rather than the company** itself. These are:

1. the company does not have sufficient assets to meet the penalty imposed;
2. the company is being deliberately used for the purpose of defeating the operation of the tax laws; and
3. previous prosecution of the company (or associated entities) has not been a deterrent.

Powers to pursue directors

Section 8Y of the *Taxation Administration Act 1953 (TAA)* and section 252 of the Income Tax Assessment Act (**ITAA**) 1936 confers wide powers to the Commissioner to pursue company directors and officers, rather than the company itself, for breaches of the tax laws.

Section 252 of the ITAA can be used to impose personal liability for the default of a company upon its public officer. The imposition of personal liability is extended beyond the public officer, and can be imposed on any director, secretary or other officer of the company.

The power conferred by section 8Y of the TAA applies to **all tax offences**, including income tax, GST and other tax-related offences.

Section 8Y provides that **any person who is concerned in or takes part in the management of a company** is liable to be prosecuted for a tax offence committed by the company as if that person had committed that offence personally. This section states that all the people involved in the management of the company are deemed to have committed the tax offence committed by the company.

Unless the contrary is proved, company officers are automatically presumed to be concerned in, and to take part in the management of the company. Accordingly, company directors and officers could be made personally liable for any penalty under the tax laws that could be imposed on the company.

Further, under section 21B of the *Crimes Act 1914*, where a person is convicted of an offence against a law of the Commonwealth, the person can be ordered to make reparation to the Commonwealth for any loss suffered or any expense incurred by the Commonwealth. Therefore, it is possible that company directors and officers prosecuted under section 8Y, to also be personally liable to make reparation to the Commissioner for the tax debts of the company.

Honesty and ignorance arising from a failure to make necessary enquiries into the affairs of the company will not be a defence to a prosecution action commenced under section 8Y. However, it will be a defence if it can be proved that the company director or officer did not aid, abet, counsel or procure the act or omission of the company and was not in any way, by act or omission, directly or indirectly, knowingly concerned in, or a party to, the act or omission of the company.

Unremitted withholding taxes

Any director who holds office during a time where amounts of withholding tax go unremitted and none of the steps outlined in section 222AOB(1) of ITAA have been undertaken, will be exposed to personal liability equal to the amount otherwise payable by the company.

Personal liability can be imposed on new directors who take office after the due date for compliance with a duty imposed under section 222AOB(1). If the required actions imposed under section

222AOB(1) have not been performed within 14 days of a new director taking office, the new director can be held personally liable for penalties equal to the outstanding amount. It is not necessary for the director to have knowledge of the company's financial position or the default whilst being a director.

The mere filing of an application for winding up or the appointment of a provisional liquidator is not sufficient to meet the requirements to protect the directors from personal liability for the penalties due to the Commissioner. As a company only begins to be wound up when a Court order is issued for the winding up of the company, personal liability for unpaid amounts can be imposed on the directors even if they are not convicted of a crime against the Commonwealth. This means that recovery action can also commence sooner, because there is no need to wait until judgment is given by the Courts.

Defences

Defences to personal liability include non-participation in management where a "good reason" such as illness exists or that "reasonable steps" were undertaken to ensure compliance. This "good reason" must exist the whole of the time the obligation to remit the withholding tax existed.

This defence requires the director to take all reasonable steps to ensure that the directors complied with the steps outlined in section 222AOB(1) or to prove there were no such steps that the person could have taken.

Simply resigning from a directorship will not be sufficient to avoid personal liability, as directors will be held liable in respect of any obligations arising during the time they were directors. All "reasonable steps" is not limited to what was reasonable for the director to have done based on what he personally knew, but what he ought to have known.

Conclusion

Under Australian tax law, there is a considerable scope for the Tax Commissioner to impose personal liability upon company directors and officers for the tax obligations and tax debts of the company. As company directors and officers cannot plead ignorance as a defence, new and existing directors and officers must conduct proper enquiries at regular intervals to ensure full compliance with the tax laws.

Mr Goggomobil borrows a good idea and buys insurance

Ever wondered whether you can borrow a clever marketing idea or concept seen on television to advertise your products and whether there would be any legal consequences involved?

Well, a recent Federal Court case would indicate that there may be some problems with this type of borrowing.

In this case, Justice Merkel granted an injunction restraining Royal and Sun Alliance (**Royal**) from broadcasting the first of a series of advertisements that borrows the Mr Goggomobil concept, made famous by the Yellow Pages advertisements of the 1990s.

As you may recall, Yellow Pages conducted an advertising campaign during the 1990s in which a middle aged man with a heavy Scottish accent, dressed in overalls uses the Yellow Pages in order to find spare parts for his beloved Goggomobil (**Mr Goggomobil**). The advertisement was successful

and highly popular and it was televised extensively throughout Australia between 1992 and 1996 and again in 1998.

In late 2001, Royal wanted to borrow the same idea of Mr Goggomobil to advertise its brand of car insurance. The first Royal advertisement, which was about Mr Goggomobil finding insurance over the phone was shown throughout the country in 2002. The second advertisement relating to Mr Goggomobil driving his Goggomobil was also shown some months later in 2002 in conjunction with radio advertisements.

Claims by Telstra

A. Copyright

Telstra also claimed to be the owner of the copyright subsisting in the original dramatic and literary works in respect of the first Mr Goggomobil advertisement shown by Royal.

During the case, Royal did not dispute that Telstra was the owner of any copyright found to subsist in the first Mr Goggomobil advertisement. However, Royal disputed that the advertisement or the script constituted an original literary or dramatic work for the purposes of the *Copyright Act 1968*. Royal also disputed that there had been an infringement of the copyright (if any) found to subsist in those works.

This is because the script relied upon by Telstra as the original script was merely a synopsis of the advertisement, and the precise form and content of the original script could not be established by Telstra. Therefore, since there is no copyright in an idea, concept or theme, Merkel J commented that it was not sufficient for Telstra to establish that Royal had reproduced their ideas, concept or theme embodied in the first Mr Goggomobil advertisement.

Merkel J held that whilst the resemblances in the script and the films relating to Mr Goggomobil are significant, the copying that had occurred related more to the *concept* or *theme* employed in relation to Mr Goggomobil rather than the way the concept or the theme was expressed. Accordingly, in Merkel J's opinion, there was no substance in the claim for infringement of copyright.

A. Trade Practices

Telstra, who owned Yellow Pages, sought undertakings from Royal not to continue with its advertising as Telstra claimed that Royal's use of the Mr Goggomobil concept conveyed an association with, or an endorsement or affiliation by, Telstra and the Yellow Pages Directories to Royal's insurance products.

Telstra also alleged that Royal's use of the Mr Goggomobil concept in the television and radio advertisements constituted passing off and contravened sections 52, 53(c) and 53(d) of the *Trade Practices Act 1974*.

Accordingly, Telstra's cause of action depended on whether Royal's advertisements represented that the Yellow Pages was in some ways associated or connected with the Royal's advertisements or services offered by Royal.

Here, unlike copyright infringement, Merkel J held that because of Royal's reasons for the use of the Goggomobil in advertisements, that is, a figure instantly recognisable due to its previous appearances in the Yellow Pages advertisements, the adoption of the Mr Goggomobil concept may give rise to a misrepresentation.

Thus, since the first Royal's advertisement virtually retained all of the features of the first Yellow Pages advertisements which made the Mr Goggomobil concept famous, popular and instantly recognisable, Merkel J held that the first of Royal's advertisement amounted to representations of association or connection between Yellow Pages and Royal. In supporting this concept, Merkel J commented that as Yellow Pages customers are all businesses throughout Australia, there would be nothing anomalous about Yellow Pages advertising its services together with one of those businesses. Therefore, an infringement had occurred.

However, unlike the first advertisement conducted by Royal, Merkel J held that the subsequent Royal commercials were sufficiently different to avoid a claim of misrepresentation, as they did not refer to the use of a telephone to obtain car insurance.

As illustrated in the above case, even though the borrowing of a successful concept or idea seen on television may not result in a breach of copyright, there may be instances where such a use may be seen as a contravention of the *Trade Practices Act 1974* by the Court.

If you have any questions regarding any article appearing in this newsletter please contact Norman Donato, Partner, on 02 9233 9031, Amy Chu, Solicitor on 02 9233 9007 or send an email to ndonato@makdap.com.au

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