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BLG MONTHLY UPDATE

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The BLG Monthly Update is a digest of recent developments in the law which Neil Guthrie, our National Director of Research, thinks you will find interesting or relevant – or both.

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ART LAW/COMMERCIAL LAW

No more anonymous sellers at auction in New York?

One of the advantages of auctions is that no one ever needs to know that you are selling off the family silver in order to pay the mortgage: the longstanding practice is that the consignor's name is kept private unless he or she wants the publicity.

Several hundred years of auction tradition have been turned upside down in *William J Jenack Estate Appraisers & Auctioneers Inc v Rabizadeh*, 952 NYS2d 197 (NY App Div 19 September 2012), where the judge held that the state's *General Obligation Law* (GOL) requires the disclosure of the name of the vendor for a contract of sale to be valid. In that case, Rabizadeh relied on the GOL to get out of having to pay for a 19th-century Russian box which had been knocked down to him at US$400,000 (plus $60,000 in buyer's commission). The judge agreed with him that state law trumped trade practice. A motion for leave to appeal has been granted: 2013 NY LEXIS 43 (10 January 2013). You can bet the big Manhattan auction houses are watching this one.

CIVIL PROCEDURE

Submitting a fake judgment: not a good litigation strategy

Did the plaintiffs in *D'Souza v Linton*, 2013 ONSC 70, think Justice Penny just wouldn't notice? Apparently: as part of their motion materials in a dispute over a real estate transaction, they submitted a default judgment against the defendants purportedly issued by the hand of that very judge.

As Justice Penny pointed out, the matter had never come before him, and the plaintiffs could not for the life of them produce the original endorsement (signed with the judge's invariable blue ink). What they had done, in fact, was get creative with a computer, paste a copy of the judge's signature on the doctored document and file a photocopy of that. Copies of the fake judgment were sent to the Law Society, the Real Estate Commission and the Financial Services Commission in support of complaints against various opposing parties. The result of this 'scurrilous and fraudulent attack on the administration of justice': full indemnity costs to the defendants and no ability for the plaintiffs to take further steps until those costs have been paid.

[Link available **here**].

Summary judgment motion to be struck 'only in the clearest of cases'

So said Justice Goldstein in *Stever v Rainbow International Carpet Dyeing & Cleaning Co*, 2013 ONSC 241. The judge noted there that the Ontario Court of Appeal did not address the question of when to stay a summary judgment motion in *Combined Air Mechanical v Flesch*, 2011 ONCA 764. Guidance is to be found in *Ghaffari v Abisyaban*, [2012] OJ No 2402 (SCJ), and *George Weston v Domtar Inc*, 2012 ONSC 5001, which endorse the proposition that a motion to strike a summary judgment should be granted 'only in the clearest of cases' – a phrase with a long judicial history. Litigants are advised, therefore, 'to take a very hard look at the merits of the proposed motion to strike by setting the bar high', with the prospect of costs sanctions as a further deterrent to being too quick to seek to strike.

[Link available **here, here** and **here**].

CONSUMER PROTECTION/TORTS

Search engine not liable for misleading or deceptive sponsored links

Sponsored links appear alongside your search results and are intended to suggest products or services that will interest you, but which more often than not just look dodgy. And in *Google Inc v Australian Competition and Consumer Commission*, [2013] HCA 1, they really were dodgy: the sponsored links displayed with certain Google search results took the user not to the site he or she was probably looking for, but to that of a competitor who had signed up for Google's AdWords feature and paid to have its site come up as the sponsored link. A user who searched for 'Harvey World Travel', for example, got a link to that company in the search results, as well as a sponsored link to its competitor, STA Travel. The trial judge found that the individual advertisers who were behind sponsored links of this type had made misleading or deceptive representations under Australian consumer protection legislation, and this finding was not appealed. The question on appeal was whether Google itself was also liable.

The trial judge rejected claims that Google had failed to make a sufficient distinction between the content of the 'organic' results of the user's search and the sponsored links, or had itself made misleading representations. He reckoned that average internet users would know the difference between the organic results and the sponsored links. The Federal Court disagreed, holding that it wasn't necessary for an intermediary like Google expressly to adopt or endorse someone else's misleading content and also that Google acted as principal (not conduit) in the display of both organic and sponsored results. Considerable reliance was placed on the fact that the sponsored link contained text which was very close to the user's original search terms. The High Court of Australia reversed, holding that the sponsored links were generated essentially by the advertisers and not by Google, which would have had difficulty in determining whether any individual advertiser whose name (or name and URL) appeared in the advertiser's sponsored link was a competitor or associate of the party the internet user was actually looking for.

[Link available **here**].

CONTRACTS

Performance in good faith as a matter of 'mutual commercial conduct'

As in Canada, the general position in England is that there is no duty of good faith in the negotiation of contracts: see *Martel Building Ltd v Canada*, 2000 SCC 60, and *Cobbe v Yeoman's Row Management Ltd*, [2006] EWCA Civ 1139.

But, as the English Technology and Construction Court reminds us in *Jacobs UK Ltd v Skidmore Owings & Merrill LLP*, [2012] EWHC 3293, a duty of good faith may arise in the performance of a concluded contract – and without there having to be express or even implied terms to that effect. In Jacobs UK, one party was obliged to consider awarding contracts to the other, and the other to consider accepting such awards. This necessarily required acting in good faith as a matter of 'mutual commercial conduct' rather than under any express or implied term to that effect.

[Link available **here, here** and **here**].

And as a matter of the parties' reasonable expectations

In the view of Leggatt J of the Queen's Bench division, there is 'nothing novel or foreign to English law' in recognising an implied duty to perform contracts in good faith: *Yam Seng Pte Ltd v International Trade Corp Ltd*, [2013] EWHC 111 (QB). International Trade Corp. (ITC) granted Yam Seng exclusive rights to distribute Manchester United branded toiletries in specified territories (because everyone wants to smell like a footballer?). The relationship was initially rosy, then soured: Yam Seng complained of late and deficient shipments, being undercut on pricing and receiving false information. Yam Seng terminated the agreement and sued ITC for breach of contract or, in the alternative, misrepresentation in inducing Yam Seng to enter into it in the first place.

Yam Seng's pleadings included a claim that the distribution contact included an implied term requiring the parties to deal with each other in good faith. Justice Leggatt noted that there is ample academic literature that discusses whether the law ought to recognise a general duty to perform contractual obligations in good faith, but no case which considers the question in any depth. While there is authority to suggest that there is no such duty, the judge concluded that there really should be no difficulty in inferring one in 'any ordinary commercial contract based on the presumed intention of the parties'. Commercial parties have an underlying expectation of honesty and trust, so it is not going out on a limb to say that dealing in good faith is anything more than what they reasonably expect of each other. This contract required the parties to communicate and co-operate; in that context, good faith was the implicit standard. While Yam Seng could not establish that ITC had breached an implicit duty not to undercut prices, there was breach of an implicit duty to provide honest information and to deliver products when promised. This struck at the heart of the trust which was vital to the relationship between the parties. Damages were awarded to compensate Yam Seng for the expenses it had incurred in performing the contract, but the evidence for lost profits was lacking. Yam Seng's misrepresentation claim also succeeded

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CONTRACTS/DAMAGES

Recovery of damages for diminution in market value caused by delayed performance

Gubbins, a farmer, wanted to develop some land he owned in Cornwall. He engaged John Grimes Partnership (JGP) to design the road and drainage works that the local government required for the project. Gubbins and JGP agreed that the work would be completed by March 2007, but even by February 2008 some parts of the work had not been completed. Gubbins hired a new engineer in May 2008 who redesigned the road and drainage layout and got council approval a month later. JGP sued for outstanding fees; Gubbins counterclaimed for the reduction in the value of the rental units he had built on the land, as a result of a falling real estate market.

The trial judge found that JGP was responsible for the delay and had caused loss attributable to a decline in the market value property. The real issue was whether that loss was too remote for recovery. The trial judge concluded that it was not: 'while property markets rise and fall, they tend not to do so overnight but over a prolonged period' – and it was the 'egregious delay' of JGP (which would have known the potential effects of delay on property values) which caused this loss. On appeal, JGP argued that losses flowing from market fluctuations beyond its control were too remote for recovery and not reasonably foreseeable at the time of contracting. Sir David Keene, who gave the leading judgment in the Court of Appeal, held that it is necessary to decide whether a loss is of the kind or type for which the contract-breaker can fairly be said to have taken responsibility, in light of the particular market in which the parties are operating. While there are very few decided cases where a decline in the property market during a period of delay has given rise to an actionable loss, JGP would have known that market fluctuations were likely, known what Gubbins wanted to do with the land and appreciated the potential consequences of a long delay in performance. Appeal dismissed: *John Grimes Partnership Ltd v Gubbins*, [2013] EWCA Civ 37.

[Link available **here** and **here**].

CONTRACTS/M&A

Restrictive covenants without readily ascertainable limits found unenforceable

Derek Martin had worked for ConCreate USL for 20 years. The company was sold to entities controlled by TriWest Construction Limited Partnership. As part of the sale to TriWest, Martin acquired an indirect interest in the business and entered into a non-competition and non-solicitation agreement with the purchaser. The restrictive covenants provided that Martin could compete with the business after 24 months from the time he disposed of his interest. The sale of his interest had to be approved by the board of TriWest's general partner and other third parties (of whom more in their place). Martin later applied to the Ontario Superior Court to have the restrictive covenants declared unenforceable. Perell J thought that the covenants were unambiguous, as well as reasonable in terms of geographic scope, duration and range of prohibited activities.

The Ontario Court of Appeal (commending Justice Perell for his usual careful and comprehensive overview of the relevant law) agreed about the lack of ambiguity and the geographic coverage (all of Canada), but not about duration or prohibited activities: *Martin v ConCreate USL Limited Partnership*, 2013 ONCA 72. The end date of the restrictive covenant depended on the consent of third parties, only some of whom were ascertainable at the time of contracting: there was the TriWest GP's board, but also TriWest's bank, bonding company and lenders – and the last three as they existed 'from time to time'. These third parties were therefore unascertainable at the time the contract was signed, and furthermore owed Martin no contractual duty to act promptly or reasonably. Some of them – lenders, in particular – might have reasons to want to limit Martin's competition with the business, and Martin had no way to influence them. Martin's interest in the business was also indirect, in the form of limited partnership units. Hoy JA was troubled by the fact that the covenants were tied to the disposition of an indirect holding, rather than the date of the original transaction or from ceasing to be a director or officer, as is more usual. As a holder of limited partnership units, Martin's ability to have a say in the management of the business was restricted (unless he wanted to be exposed to unlimited liability), which in Justice Hoy's view made the analysis different from the typical scenario. Martin was also prohibited from using non-public information about the business, for as long as that business was carried on. This, together with a term for the non-compete and non-solicit provisions that was tied to divestiture of limited partnership units rather than from the date of the sale to TriWest or the time Martin ceased to be actively involved in the business, made the restrictive covenants unreasonable and unenforceable. The scope of prohibited activities was also too broad.

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CORPORATE/CONTRACTS

Veil-piercing goes only so far

VTB Capital, the UK subsidiary of a Russian bank, alleged that it had been the victim of a conspiracy by two British Virgin Islands companies, a Russian company and a Russian individual in connection with the financing of a corporate take-over by one of the BVI companies. VTB claimed that two of the entities involved were under common control but had been represented as operating at arm's length, and that the assets of the target company had been overstated. VTB argued that an exercise in piercing the corporate veil should have the effect of making the person who controls the company liable as if he or she had been a party to the company's contract.

The UK Supreme Court agreed with the Court of Appeal that this was not a case for veil-piercing, and not a case to extend the reach of the exercise: *VTB Capital plc v Nutritek International Corp*, [2013] UKSC 5. As the Court of Appeal said, veil-piercing will permit the identification of the puppeteer behind the puppet, and permit an equitable remedy against the puppeteer where the puppet's corporate status has been used for fraudulent purposes. Veil-piercing does not, however, make the puppeteer a party to the puppet's contracts.

[Link available **here**].

COURTS

UK Supreme Court goes YouTube

The United Kingdom Supreme Court now has its own YouTube channel. Whenever a judgment is released, one of the justices reads a brief summary, which is then uploaded to YouTube. For live coverage of UKSC proceedings, tune into Sky News (but there is no ability to watch rebroadcasts).

[Link available **here** and **here**].

(US) Supreme Court justice death calculator

In case you missed it, the people at *Slate* have come up with a nifty (if macabre) tool to predict how likely it is that each member of the USA's highest court will die before the end of Obama's second term as president (thus freeing up a seat for a new appointment). Let's just say the odds aren't the best for Justices Scalia, Kennedy, Breyer and Bader Ginsburg…

[Link available **here**].

EMPLOYMENT

Don't work too hard – you could get fired

Not if you're a lawyer, probably, but certainly if you work for Banana Republic. Andrea Shettleworth, a sales associate at BR, was disciplined by her employer for bossing around her colleagues on the sales floor and yelling at them, hogging sales, giving away unauthorised discounts and working off the clock (that is, punching out for a break but working through it). Shettleworth received several warnings about her behaviour and was dismissed after the final one. She filed a human rights complaint, alleging that BR's monitoring and disciplinary action were based on her racial origin and were a reprisal for her claims, while still employed, that the employer had failed to deal adequately with an alleged assault on her by a co-worker. (Who'd have thought that folding sweaters created such workplace tensions?)

The Ontario Human Rights Tribunal dismissed Shettleworth's application: *Shettleworth v GAP (Canada) Inc*, 2013 HRTO 17. She had not established that the company's rules about discounts and working off the clock were applied inconsistently. It was, moreover, important for the employer to enforce rules about hours of work in light of its potential liability under the *Employment Standards Act* if it failed to do so. The evidence showed that the termination of Shettleworth's employment resulted not from her complaint about the alleged assault but because she was in breach of the clear instructions in the final warning she had received.

[Link available **here**].

EVIDENCE

Alberta CA on settlement privilege: it's 'robust'

In the Alberta Court of Appeal's words, settlement privilege 'should not normally give way to answer a limitations defence': *Bellatrix Exploration Ltd v Penn West Petroleum Ltd*, 2013 ABCA 10. In that case, the parties had attempted to settle various points in dispute that related to a commercial venture, but ultimately failed to reach agreement. Bellatrix filed a statement of claim against Penn West; in response, Penn West pleaded a defence based on the *Limitations Act*. Bellatrix argued that Penn West could not rely on a limitations defence because it had made representations which gave rise to some kind of estoppel or acknowledgment of the validity of Bellatrix's claims. Penn West applied for a declaration that correspondence between May and August 2009 ought to be excluded from the record because it was subject to settlement privilege. An Alberta master agreed that the correspondence form this period was covered by the privilege because the necessary preconditions were present: (a) a litigious dispute, either in existence or in prospect; (b) express or implied intent that the communications would not be disclosed to the court in the event that settlement negotiations failed and (c) an underlying purpose to effect a settlement. The master went on, however, to conclude that settlement privilege is 'not as robust' a form of privilege as solicitor-client or litigation privilege, and that the 'overall interests of justice' favoured the lifting of the privilege in order to allow Bellatrix to respond to the limitations defence (which was not the substance of the negotiations between the parties).

The Court of Appeal held that the master correctly determined that settlement privilege applied to the correspondence in question. Where she erred was in assessing the scope of the privilege, which in the court's view is broad – and the exceptions to it correspondingly narrow. The court then reviewed the exceptions which have been identified in the case law, noting that one ought to 'proceed cautiously before establishing exceptions to settlement privilege'. Merely saying that it is 'not fair' to recognise the privilege or, vaguely, that the 'overall interests of justice' require it to be lifted, is an error in law which will undermine the purposes of the privilege: to permit parties to proceed with their settlement discussions with maximum candour. Ordinarily, answering a limitations defence will not oust the privilege; it would be necessary to show that the 'alternative policy objective' to leaving the privilege intact 'clearly outweighs' the underlying objective of the privilege. In this case, the parties could simply have entered into a tolling or standstill agreement to stop the limitations clock while they conducted their negotiations.

[Link available **here**].

Australian state enacts journalist-source privilege

The legislature of Victoria has enacted a statutory privilege to protect communications between an informant and a journalist, which came into force on 1 January 2013. Section 126K(1) of the *Evidence Act 2008* now provides that 'if a journalist, in the course of the journalist's work, has promised an informant not to disclose the informant's identity, neither the journalist nor his or her employer is compellable to give evidence that would disclose the identity of the informant or enable that identity to be ascertained.' The privilege may be displaced by a court order if the public interest in disclosure would outweigh protecting the identity of the journalist's source.

In Canada, privilege for journalist-source communications needs to be established case by case, using the Wigmore criteria; there is no privilege attaching to these communications as a class or category: *R v National Post*, 2010 SCC 16.

[Link available **here** and **here**].

Can the trustee of an incapable adult obtain privileged information previously received by the latter?

Doreen Wayne suffers from dementia. Her son William was appointed as committee (trustee) of her estate by the BC Supreme Court, and wanted to obtain the file related to her affairs from her lawyers. The lawyers provided copies of Mrs Wayne's will, enduring power of attorney and personal directive under the Alberta *Personal Directives Act*, but claimed solicitor-client privilege over the rest of the file. William wanted to see the legal advice that had been provided with respect to some *inter vivos* transfers of land which he now challenged.

Mahoney J of the Alberta Court of Queen's Bench held that the a trustee under the *Adult Guardianship and Trustee Act* (AGTA) essentially steps into the shoes of the represented adult and therefore has access to the file created by the represented adult's lawyer before the adult became incapacitated: *Wayne v Wayne*, 2012 ABQB 763. This in spite of the fact that the AGTA itself does not grant the trustee full access; on common-law principles, however, it made sense to the judge that if the personal representative (executor) or next-of-kin of a deceased person would be able to see the lawyer's file and if, in BC at any rate, the representative of an incapacitated adult can waive that person' s privilege, then William ought to see the privileged materials in his mother's file – as long as this was necessary for the exercise of his duties as his mother's trustee.

[Link available **here**].

'Peripheral' administrative information about lawyer's file presumptively privileged

Morris Kaiser's trustee in bankruptcy, Soberman Inc., thought it smelled a rat: while claiming to be impecunious, Kaiser appeared to be living a life of 'some means', which included trips to casinos in the US. Kaiser claimed he was drawing advances on the credit card of a buddy, Cecil Bergman, but the trustee suspected the whole thing was a front to shield Kaiser's assets from his creditors. Soberman applied for the appointment of a receiver over the property of Bergman and his company, on the grounds that their property was actually Kaiser's and should form part of his estate for bankruptcy purposes. The trustee also sought an order for disclosure of the source of all funds Kaiser had received since entering bankruptcy. Kaiser then moved to have the trustee's counsel removed from the record, a motion that was found to be purely tactical. When Kaiser failed to pay the costs of that motion, the judge ordered him to reveal the identity of the party who had been paying his legal bills. That information was, in the judge's view, presumptively but not permanently privileged, and the presumption had been rebutted because it had been shown that privileged information that was relevant to the case would not be revealed to the prejudice of Kaiser.

The Ontario Court of Appeal agreed and disagreed: *Re Kaiser*, 2012 ONCA 838. Although the law was once that 'administrative' information about the advice provided by a lawyer (including information about payment of the lawyer's bill) would be permanently protected from disclosure, the law has moved away from a categorical approach to this kind of 'peripheral' information. As the motion judge held, it is only presumptively privileged, and the presumption may be rebutted. Where the motion judge got things wrong, however, was in concluding that the presumption of privilege had been displaced on the facts at issue, having taken 'too narrow a view' of the potential prejudice to Kaiser and the impact of disclosure on his right to confidentiality. The identity of the person fronting Kaiser's litigation was not merely tangential but central to the merits of the main issue between the trustee and the bankrupt – the shielding of assets. The removal motion and the order for disclosure were but a 'skirmish in that theatre of battle'. The trustee could perhaps have framed its motion on the basis that the communication with the lawyer was being used to perpetrate a crime or fraud, but did not. The presumptive privilege remained intact.

[Link available **here**].

UKSC declines to extend privilege to legal advice given by non-lawyers

Not a surprising result, but a significant decision. PricewaterhouseCoopers (PwC) devised a tax avoidance scheme, which the Prudential group of companies implemented through a series of transactions. PwC had, as required under UK legislation, disclosed the scheme to Her Majesty's Revenue and Customs, and a tax inspector later served notices on Prudential in order to obtain disclosure of specified documents. Prudential disclosed some documents, but asserted that legal advice privilege (what in Canada would be called solicitor-client privilege) protected the remainder. The tax inspector went up a level and obtained an order to disclose the documents withheld by the Pru, which applied for judicial review. Two levels of court held that the disputed documents would have been subject to privilege had the advice contained in them been provided by a member of the legal profession, but that 'no such privilege extended to advice, even if identical in nature, provided by a professional person who was not a qualified lawyer'.

In the UK Supreme Court, Lord Neuberger gave the leading judgment for the majority. He held that while there were strong arguments in favour of extending the ambit of privilege, there was an equally strong case for confining the protection afforded by privilege to advice that is actually provided by lawyers. To extend privilege to non-lawyer professionals would entail uncertainties and unknown consequences. Merely saying (like the dissenting justices in this case) that it should be extended to professionals who 'ordinarily' provide advice of a legal nature does not provide sufficient clarity with respect to professionals like municipal planners, engineers, surveyors, architects or actuaries, who often have 'considerable specialist legal expertise' but who do not always give advice of a legal nature, and who are governed by their own codes and disciplinary procedures. Lord Neuberger thought any radical change in the longstanding policy to confine privilege to the legal profession was better left to parliament, especially in light of the changes to the legal profession itself under the *Legal Services Act 2007* (which recognises that non-lawyers do provide legal advice and allows lawyers to work in professional firms with non-lawyers, but which does not extend privilege to non-lawyers). Lord Sumption and Lord Clarke dissented, on the grounds that English law has always taken a functional approach to privilege: its availability depends on the nature of the advice and the circumstances in which it is given, not the status of the adviser, as long as the advice is given in a professional context.

[Link available **here**].

FASHION LAW

It's official: Parisian women may now legally wear trousers

Sometimes the law moves a bit slowly, but it has caught up with what women in Paris have been doing for quite some time now. In response to the efforts of Maryvonne Blondin, a French senator with a passion for fashion and a flair for self-promotion, the 1800 ordinance of the City of Paris ‘concerning female transvestism’ was declared ‘implicitly abrogated’ on 31 January and thereby rendered merely of ‘archival’ interest, as a result of its fundamental incompatibility with the equality guarantees of France’s 1946 constitution and European human rights legislation.

[Link available **here**].

Louboutin’s last kick at the can?

Fashionista readers of the Monthly Update will recall the ongoing saga of the red-soled shoes, which resulted in a 2d Circuit decision recognising Christian Louboutin’s right to a monopoly to produce shoes with a red sole that contrasted with the upper, but not shoes with red uppers and soles (like those made by YSL, Louboutin’s arch-rival in the great shoe showdown).

The US Patent & Trademark Office has recently rejected the argument put forward by Louboutin that his mark should be extended to a shoe with a red sole that contrasts with ‘any visible portion of the shoe’, on the grounds that this would not reflect what the 2d Circuit actually said and might have the effect of preventing someone else from making a shoe with red sole and upper but contrasting ornamentation (buckles, bows etc.).

INTELLECTUAL PROPERTY

Is there copyright in a computer language?

SAS Institute certainly hoped so, as it wanted to prevent World Programming from selling a product called WPS, which emulated much of the functionality of SAS Institute’s SAS language. The question was answered on a preliminary basis in the English Chancery court, then found its way to the European Court of Justice, and was ultimately remitted back to England for Arnold J to adjudicate: *SAS Institute Inc v World Programming Ltd*, [2013] EWHC 69 (Ch).

Justice Arnold concluded that a computer language is not a ‘work’ for copyright purposes; and not even under the ‘expansive and open-ended’ category of literary and artistic works, which nevertheless has its limits (sound recordings or broadcasts are outside it, for example). SAS Institute was itself unable to identify what kind of ‘work’ the SAS language might be. The judge drew an analogy with traditional languages, which can be fixed in copyrightable works like dictionaries or grammars, but which are not themselves protectable forms of intellectual property. Nor was it a ‘compilation’. It was, however, open to argument that SAS Institute’s data file formats could be intellectual creations in which there could be copyright, provided there was an element of creativity or ‘personal touch’ in their creation – but the point had not been fully pleaded. As a result, World Programming had not infringed SAS Institute’s copyright in the components of the SAS language. But it had infringed copyright in the SAS manuals which explained how to use the language, the content of which were substantially reproduced in the WPS guides produced by World Programming.

[Link available **here**].

Original tweeter retains copyright in retweeted photos

Daniel Morel, a Haitian-born photojournalist, was in Port-au-Prince when the big earthquake occurred in 2010, one of very few journalists on the ground. He took pictures of the devastation and managed to upload and disseminate his photos using his Twitter account and a third-party app called Twitpic. The Twitpic terms of service provide that owners of images retain copyright in them. Morel’s pictures were retweeted numerous times, and he sold them to many news services, which credited him as the photographer. Agence France-Presse also downloaded the images, but credited them to its own stringer and sold them to third parties (including Getty Images). AFP, with a certain amount of chutzpah, sought a declaration that it had not infringed Morel's copyright; he counterclaimed: *Agence France Presse v Morel*, US Dist LEXIS 5636.

Nathan J of the district court in Manhattan found for Morel with respect to his claims of direct infringement. AFP could not establish that it was a third-party beneficiary of Morel's agreement with Twitpic or that a sub-licence was somehow granted through retweeting, given the clarity of the Twitpic terms of service, which stated that retransmission of images merely granted a licence to use someone else's images on Twitpic.com or an affiliated site. The judge did think, however, that damages should be limited to a figure based on the number of works infringed, not the number of infringements (which would be much larger, given the number of retweets involved). Issues related to Getty's knowledge and intent, wilful infringement by AFP and Getty, and contributory or vicarious liability were left for another day, as they turned on questions of fact which could not be decided summarily.

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LAWYERS

It's bad enough to have an affair with a vulnerable client…

But even worse if, like Thomas P Lowe, a Minnesota attorney, you bill the client for meetings in which you engaged in sexual relations with her.

Lowe conceded the truth of the allegations against him, waived his procedural rights under the state's rules of professional conduct and agreed to an indefinite suspension from practice with no right to petition for reinstatement for 15 months: *In re Petition for Disciplinary Action against Thomas P Lowe, a Minnesota Attorney* (Minn SC, 10 January 2013). Any petition for reinstatement is to be conditional on completion of professional responsibility and continuing legal education requirements.

PRIVACY

No reasonable expectation of privacy in backstage exchange with comedian

Ann Bogie went to talk to Joan Alexandra Molinsky Sanger Rosenberg – stage name Joan Rivers – after a performance at the Lake of the Torches Casino in Lac du Flambeau, Wisconsin. (Hmm, has Joan fallen on hard times?) Their 16-second exchange was filmed and used in a documentary movie called *Joan Rivers: A Piece of Work*. Bogie sued Rivers, her production company and others for invasion of privacy and misappropriation of personality. Part of her complaint was that the conversation she had had with Rivers might be construed as approval of the latter's unkind remarks about Helen Keller, Wisconsin and its people, and an audience member who had heckled Rivers. The Wisconsin district court dismissed the claim, as has the appeals court for the 7th Circuit: *Bogie v Rosenberg* (7th Cir, 17 January 2013).

The 7th Circuit declined to disturb the lower court's rulings that no reasonable person would have considered that (a) the crowded backstage area was private or (b) filming Bogie was highly offensive, even though Bogie did not consent to the filming and the filming was for a profit motive. Privacy law ultimately does not protect the 'shrinking soul' who is abnormally sensitive about appearing in public situations. Bogie may have been embarrassed about appearing to condone Rivers's harsh (but probably funny) statements, but the law doesn't provide protection from association with offensive material; it merely protects against intrusions on privacy. The misappropriation claim also failed because the documentary was about something newsworthy or in the public interest (liberally defined, anyway) and any misappropriation was an incidental part of a much larger whole.

PROFESSIONAL LIABILITY

Let's hope a judge never reads this

A recent article in the *Modern Law Review* has suggested that liability could be imposed on transactional lawyers who provide accurate and competent advice which is then used by the client as the basis of unlawful activity: D Kershaw & R Moorhead, 'Consequential Liability for Client Wrongs: Lehman Brothers and the Regulation of the Legal Profession' (2013) 76:1 MLR 26. The authors point to the 'true sale' opinion provided in 2006 by Linklaters to Lehman Brothers on repo financing (i.e., whether a repo transaction amounted to a sale and repurchase arrangement or a secured loan under English law). The advice provided was accurate and ethical under current standards, but was used by the client to facilitate what the authors rather delicately call 'problematic accounting practices'. They then go on to argue that a theory of consequential liability could be imposed on the giver of such an opinion, predicated on existing rules related to accessory liability and professional rules imposing duties on lawyers to act in the public interest. Burn after reading.

TAX

Tax authorities must disclose basis of case under GAAR

The Minister of National Revenue's policy in litigating a case founded on the general anti-avoidance rule (GAAR) in s 245 of the *Income Tax Act* (ITA) has, up to now, been to allege that the taxpayer has abused or misused some provision of the ITA, but not to identify the tax policy that is being relied upon in reaching that conclusion. The minister merely identifies the individual provisions of the ITA at issue, without much more. In *Birchcliff Energy Ltd v The Queen* (TCC, 20 December 2012), the taxpayer took issue with that approach and received a sympathetic response from Justice Miller of the Tax Court.

The judge agreed that the taxpayer ought to know, as a material fact, which particular policy lay at the heart of the allegations against it, given the open-ended consequences of a GAAR ruling. He rejected the minister's argument that this would permit the taxpayer to compel disclosure of the Crown's conclusions on a question of law. The taxpayer has a right to know the case against it as early as possible. This includes knowing the object, spirit and purpose of the provisions which it has alleged to have abused, as informed by the relevant tax policy. The Crown may still change its mind during the course of litigation and allege the existence of a different underlying object, spirit or purpose – but this change in tack should be transparent and may go to the strength of the Crown's case.

Pat Lindsay of the Calgary office of BLG acted for Birchcliff Energy.

TRUSTS/FIDUCIARIES/AGENCY

Agent can hold secret commission on constructive trust for principal

Ramsay Mankarious facilitated, through Cedar Capital Partners, the acquisition of a hotel in Monte Carlo by a group of investors. What Mankarious did not fully disclose was the fact that he was also acting for the sellers of the hotel and received a payment of €10 million for brokering the sale (although he was contractually obliged to disclose this to the purchasers under his agreement with the sellers). The €10 million fee, because it had been insufficiently disclosed to Cedar Capital's principals in the investor group (thus depriving them of the ability to acquire the hotel at a lower price), was therefore a secret commission.

The trial judge concluded that the investors could not (in light of *Sinclair Investments (UK) Ltd v Versailles Trade Finance Ltd*, [2011] EWCA Civ 347) pursue a proprietary remedy against Mankarious and Cedar Capital, and were entitled only to the personal remedy of an account in equity. To be able to establish that there is a proprietary remedy under Sinclair Investments, the asset or money acquired by the defaulting fiduciary must (a) be or have been beneficially the property of the beneficiary, or (b) have been acquired by the fiduciary by taking advantage of an opportunity or right which was properly that of the beneficiary. There are distinct advantages in establishing a proprietary right: if the fiduciary is insolvent, the improperly acquired profit may not be available to the fiduciary's creditors; if the profit has been invested, the fiduciary may recover the increase in value as well; or, if the profit has been transferred to a third party, the beneficiary may recover it from that party. In short, the prospect of recovery is much better if the remedy is proprietary and not an account in equity.

The narrow question before the English Court of Appeal was the nature of the investors' remedy: *FHR European Ventures LLP v Mankarious*, [2013] EWCA Civ 17. Lewison LJ acknowledged the controversy which Sinclair Investments has attracted; Sinclair and the cases it considered 'are difficult to fit into a neat set of rules'. In his judgment, the cases do establish that a principal can acquire a proprietary interest in an asset acquired by an agent, even where the principal had no pre-existing proprietary interest, the agent acquired the asset with his own money or the agent was not specifically charged with acquiring a particular property. The cases also show that a fiduciary may be held to be a trustee of a profit made in breach of his duty, even where the principal did in fact acquire the target property. The profit earned by Mankarious in this case could be characterised as both a secret commission and as a lost opportunity for the investors, and on the latter account it qualified under exception (b) to the Sinclair Investments rule. Cedar Capital therefore held the benefit of its contract with the sellers on constructive trust for the investors – with the result that moneys paid under that contract to Mankarious could be followed and traced. Pill LJ expressed some reservations about the way in which Lewison LJ reached the conclusion that the investors' remedy was proprietary and not personal, but thought as a matter of public policy that it ought to be. The Chancellor, also allowing the appeal, provides a general overview of the law of constructive trust, noting 'the very considerable difficulties inherent in the analysis in Sinclair Investments' and other cases, and the need for 'an overhaul of this entire area of the law ... in order to provide a coherent and logical framework' – something only Parliament or the UK Supreme Court can do. Perhaps when the UKSC gives judgment in the appeal of *Sinclair Investments*?

[Link available **here** and **here**].

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UNJUST ENRICHMENT/TORTS

Will we ever know what the deal is with waiver of tort?

Not for the foreseeable future, now that the Supreme Court of Canada has denied leave to appeal the BC Court of Appeal's decision in *Koubi v Mazda Canada Inc*, 2012 BCCA 310.

Canadian courts have not managed to decide whether waiver of tort is an independent cause of action predicated on wrongdoing (without proof of damages) or a 'parasitic' remedial election that depends on the existence of an underlying tort. The result is that waiver of tort is routinely treated as a claim that is not doomed to failure, but is never decided on the merits because it almost always arises in class proceedings – where not having to prove damages would be an obvious advantage for plaintiffs, but which almost always settle before trial. At least the BC appeal court did usefully narrow the application of waiver of tort in Koubi to preclude its use where there is an exhaustive or exclusive legislative scheme to remedy a statutory breach.

Bruce Dixon and and Michelle Maniago in BLG's Vancouver office, and Nadia Effendi in the Ottawa office, acted for Mazda Canada.

[Link available **here** and **here**].

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