

Would a New Zealand court decide the case the same way? There is no doubt the decision must be highly persuasive, but modification of *Lange* from the subject matter of political discussion to encompass discussion of matters of public interest generally is required. There are strong arguments that allegations of possible police corruption and an investigation into the same should be protected from a defamation action. Difficulty might arise with the naming of the police officer, but the arguments in favour of naming in the circumstances of *Flood* are credible. Second, qualified privilege can be defeated in New Zealand by the statutory malice provisions of s19 Defamation Act 1992 namely motivation by ill will or misuse of the occasion. The *Lange* court, also thought that s 19 could encompass the taking of reasonable care (at [42]). Once again, it seems likely that our courts would follow the English courts in deciding that reasonable care had been taken and that there was no improper motive or misuse of the occasion in publishing the material.

## CONTRACT

### Marcus Roberts

*Kipling v Van Kan*  
[2012] NZCA 163

A party to a contract may cancel it under the Contractual Remedies Act 1979 if it can show that it has been induced into it by a misrepresentation (s 7(3)(a)). It must also show that the misrepresentation substantially reduced the benefit of the contract, or substantially increased their burden under the contract (s 7(4)(b)(i) and (ii)).

What is not clear from the statute is how directly related to the contract the increase in burden or reduction in benefit must be. In *Jolly v Palmer* [1985] 1 NZLR 658 (HC), the government valuation of a property was misrepresented to the defendant purchasers. The defendants argued that this misrepresentation substantially increased their burden under the contract (s 7(4)(b)(ii)) because the amount that they could raise by way of mortgage over the property was much lower than they had expected. However, Hardie Boys J held that as “[t]he contract did not commit them to undertaking any mortgage at all” then any increased burden in relation to the mortgage “was incidental or collateral to the contract, but not under it” (at 662). Thus, although the burden on the purchasers was substantially increased (they could no longer raise enough money to buy the property), there was no requirement under the contract to obtain a mortgage. Following *Jolly v Palmer* any increased burdens flowing from the contract, but not contained within the contract itself, do not qualify under s 7(4)(b)(ii). This interpretation has not been universally accepted; *Gault on Commercial Law* argues that: “the wording of the [statutory] paragraph appears

to permit the wider interpretation that any reduction in benefit or increase in burden will suffice so long as it results directly or indirectly from the contract” (CR 7.04(2)).

A recent Court of Appeal decision appears to favour widening the interpretation of s 7(4)(b). *Kipling v Van Kan* [2012] NZCA 163 was an appeal against a High Court summary judgment. The appellants were three guarantors of a company (Brave Design Ltd) which owed money to the respondents under a lease. The High Court rejected the guarantors’ claim that they had an arguable defence to the summary judgment (HC Auckland CIV-2010-404-6799, 23 February 2011). In particular, it held that a misrepresentation made by the respondent lessors relating to the use of a right-of-way did not allow the company to cancel the lease.

The right-of-way served the property next-door and from it one could also access the leased property. The respondents held a right to use it and from the beginning of its tenancy Brave Design accessed the leasehold property via this right-of-way. It was then able to use its own driveway for additional parking space and other activities. However, the respondents subsequently surrendered the right-of-way easement. Without knowledge of this development, Brave Design entered into a written lease with the respondents (the previous arrangement had been an informal one) and continued to use the next-door right-of-way despite having no right to do so. This was finally stopped when the owners of the next-door property erected a security fence. Brave Design tried to reach some negotiated resolution and when none could be reached, it cancelled the lease. The guarantors argued that Brave Design had been induced to enter into the written lease by a representation made by the respondents that the leased property would still be accessible through the right-of-way.

The High Court held that even if there had been a misrepresentation as to the right-of-way, could not have met the requirements under s 7(4)(b) because “Brave Design always had alternative access to its property from the road frontage ... [and] did not require the access from [next-door] to access its premises under the lease” (at [32]).

On appeal, the Court of Appeal disagreed and held that if the misrepresentation could be established by the guarantors then it “could well have substantially reduced the benefit of the contract or have made the benefits substantially different from that represented” (at [41]). Interestingly, the Court of Appeal disagreed with any implicit suggestion that merely because the next-door right-of-way was not referred to in the lease its loss could not substantially reduce the benefit of the contract. Instead it held that since the claim was that the lease was represented to give Brave Design more benefits than those actually in the lease, s 7(4)(b) should not be limited to benefits specified in the terms of the lease (at [42]). The Court of Appeal has highlighted the conceptual difficulty with the wording of s 7(4)(b)(i) and (ii) – how can a misrepresentation increase

the burden or decrease the benefit of a contract? Is it not true that only failing to fulfil contractual terms can do that? This conceptual difficulty was noted soon after the CRA became law (Dawson and McLauchlan *The Contractual Remedies Act 1979* (Sweet & Maxwell (NZ), Auckland, 1981) at 54–55).

The difficulty is sidestepped if one takes a broader view of misrepresentations that reduce the benefit under the contract for the purpose of s 7(4)(b)(i). *Kipling* suggests that these misrepresentations do not need to reduce benefits that the cancelling party has received under the terms of the contract only. Incidental or consequential benefits that flow from the misrepresentation, but are not actually benefits under the contract, are also covered. By the same reasoning, misrepresentations that increase the burden on the cancelling party (such as making it impossible to obtain a mortgage?), should also qualify for s 7(4)(b) even if those burdens are not terms of the contract. While this decision was only an appeal from a summary judgment application it will be interesting to see whether future courts will follow the Court of Appeal’s lead when full argument has been heard.

## INTELLECTUAL PROPERTY

### Anna Kingsbury

*Mayo Collaborative Services v Prometheus Laboratories Inc*  
566 US \_\_\_ (2012)

The United States Supreme Court unanimously reversed a decision of the Court of Appeals for the Federal Circuit (the specialist US patent court), and held that biotechnology patents held by Prometheus were invalid. The decision has broad implications for patentable subject matter across a range of industries, including biotech and software patents.

The decision was about patents involving the use of thiopurine drugs in treating autoimmune diseases such as Crohn’s disease and ulcerative colitis. In simple terms, the patents were for methods of medical diagnosis involving giving patients particular doses of the drug and then taking blood tests to measure the results in order to decide whether the patient had the right dose. Prometheus sold diagnostic kits embodying the patented processes. Mayo bought and used these tests for a time, then began using and selling its own tests, and Prometheus sued for patent infringement.

The Federal Circuit held that the patents were valid and infringed. The Supreme Court granted vacated the Federal Circuit judgment, remanding it to the Federal Circuit for reconsideration in light of the Supreme Court’s then recent decision in *Bilski v Kappos* 130 S Ct 3218 (2010). The Federal Circuit reaffirmed its earlier decision, and the Supreme Court on appeal reversed the Federal Circuit. The Supreme Court can therefore be taken as sending a clear message to the Federal Circuit on the issue of patentable subject matter.

The decision is centred on s 101 of the US Patent Act (35 U.S.C. §101) which defines patentable subject matter. The Supreme Court has long held that § 101 contains an implicit exception to patentability for “[L]aws of nature, natural phenomena, and abstract ideas”. The application of laws of nature to a new and useful end are patentable. The patent claims at issue purported to apply natural laws describing the relationships between the concentration in the blood of certain thiopurine metabolites and the likelihood that the drug dosage would be ineffective or induce harmful side-effects. The issue was whether the claims added enough to the described natural correlations to be patentable applications of natural laws. The Supreme Court held unanimously that they were unpatentable natural laws:

the steps in the claimed processes (apart from the natural laws themselves) involve well-understood, routine, conventional activity previously engaged in by researchers in the field. At the same time, upholding the patents would risk disproportionately tying up the use of the underlying natural laws, inhibiting their use in the making of further discoveries.

The Supreme Court has made it clear that there is still a clear threshold requirement that subject matter of a patent must be inherently patentable. It has also made it clear that the concerns about eligible subject matter in *Bilski* were not confined to software patents. The case attracted major interest from medical and research organisations, many of whom filed briefs to the Court. The case will be welcomed by doctors and medical researchers concerned about the growing impact of patent protection on their work. It will also be interesting to see what impact the decision will have on the case of *Assn For Molecular Pathology v Myriad Genetics* 94 USPQ (2d) 1683 (2010) a case about the patentability of claims for isolating DNA for BRCA1 and BRCA2 human genes implicated in breast and ovarian cancer, and methods of detecting mutations. The Federal Circuit had found that this was patentable subject matter, the Supreme Court has vacated the Federal Circuit judgment, and remanded the case to the Federal Circuit for further consideration in light of *Mayo*.

In New Zealand, unlike the United States, case law has established that methods of medical treatment are not patentable, and the Patents Bill now before Parliament will make this exclusion express in the legislation. This means that claims for methods of medical treatment will continue to be unpatentable under New Zealand law. However, this decision of the US Supreme Court decision has broader implications in terms of patentable subject matter, across a range of industries. The Supreme Court made clear that laws of nature are not patentable, and expressed a wider policy concern about the danger of granting patents for basic tools of science and technology and thereby inhibiting innovation. These con-

cerns are shared by many in New Zealand scientific communities, and are likely to be influential in New Zealand courts.

#### *Roadshow Films Pty Ltd v iiNet Ltd* [2012] HCA 16

Copyright owners argued that an internet service provider, iiNet, had authorised copyright infringement by its customers. Roadshow claimed that some customers of iiNet had infringed copyright in its films by making them available online using the BitTorrent peer-to-peer file sharing system, and that iiNet had infringed copyright by authorising its customers' infringing acts. The Australian Federation Against Copyright Theft (AFACT) had provided to iiNet notices of specific infringements by its customers, and it was alleged that iiNet did not take reasonable steps in response to these notices.

Authorisation is a basis of copyright infringement in both Australia and New Zealand, but the Australian statutory framework for authorisation is different from that in New Zealand. The Australian statute provides for specific matters to be taken into account in determining infringement, the New Zealand Act offers no guidance. The Copyright Act 1968 (Cth), s 101(1A) provides that:

In determining, for the purposes of subsection (1), whether or not a person has authorised the doing in Australia of any act comprised in a copyright subsisting by virtue of this Part without the licence of the owner of the copyright, the matters that must be taken into account include the following:

- the extent (if any) of the person's power to prevent the doing of the act concerned;
- the nature of any relationship existing between the person and the person who did the act concerned;
- whether the person took any other reasonable steps to prevent or avoid the doing of the act, including whether the person complied with any relevant industry codes of practice.

In both Australia and New Zealand, internet service providers are not liable for the infringements by their customers simply because they provide the service of connection to the internet. Beyond that, the frameworks are somewhat different. Nevertheless, this decision is of interest in New Zealand because of its interpretation of the meaning of authorisation, although it should be borne in mind that to s 101(1) of the Australian Act there is no New Zealand equivalent.

On the facts, the HCA upheld the decision of the Full Federal Court that iiNet had not authorised infringement. French CJ, Crennan and Keifel JJ said that authorisation depends on all the facts of the case. An alleged authoriser must have a power to prevent the

primary infringement, and the extent of iiNet's power was limited to an indirect power to prevent a customer's primary infringement of the appellants' films by terminating the contractual relationship between them. The information contained in the AFACT notices did not provide iiNet with a reasonable basis for sending warning notices to individual customers containing threats to suspend or terminate those customers' accounts, so that iiNet's inactivity after receipt of the AFACT notices did not give rise to an inference of authorisation. The Judges said that this finding showed that the concept and the principles of authorisation were not readily suited to enforcing copyright against widespread infringements occasioned by peer-to-peer file sharing, noting that other jurisdictions had introduced specially targeted legislative schemes (as New Zealand has recently done in enacting the Copyright (Infringing File Sharing) Amendment Act 2011).

Gummow and Hayne JJ agreed that the appeal should be dismissed, but issued separate reasons. They also applied the factors in s 101(1A). The Judges said that the power of iiNet was limited by the nature of its commercial relationship with its subscribers, and that iiNet could not control the choice of its subscribers and other users to utilise the BitTorrent software, nor could iiNet modify the BitTorrent software or take down the appellants' films which were made available online. In relation to what constituted reasonable steps, the Judges said that the only indisputably practical course of action would be an exercise of contractual power to switch off and terminate further activity on suspect accounts, but that this would not merely avoid further infringement but it would deny to the iiNet customers non-infringing uses of the iiNet facilities. In any event, cancelled iiNet subscribers would be free to take their business to another ISP. The Judges said that it was not unreasonable for iiNet to take the view that it need not act upon the incomplete allegations of primary infringements in the AFACT Notices without further investigation which it should not be required itself to undertake. The appeal was dismissed.

This is an important case for internet service providers, and might be expected to be the last word on internet service provider liability in Australia. However, this is unlikely to be the case. The Hollywood interests that brought the action will continue to raise these issues with internet service providers, and to lobby for a specific legislative regime, especially in light of comments of some of the Judges about targeted legislative schemes. Many content providers want a system of warning notices and disconnection of customers similar to that in New Zealand, and iiNet's success in the High Court will be seen as demonstrating a need for such a system. ISPs, on the other hand, argue that it is time of content providers to make more of their material legitimately available to their customers. □