
Capping Liability in Federal Government ICT contracts: it has arrived!

The Policy does not provide any exception for these types of purchases, and agency procurement officers will still need to apply the same principles and processes to procurement of these types of products - which of course, does not seem like the most practical approach for all parties involved.

The Risk Assessment

Clearly the critical step in the practical implementation of this Policy is the risk assessment, as the Policy requires that a risk assessment must be conducted prior to determining the cap of liability. The Guide sets out the preferred approach to conducting the risk assessment which is broadly in line with the Australian/New Zealand Risk Management Standard AS/NZ4360:2004.

The Guide provides a step by step approach to establishing an estimated limit of liability at the time the tender is released, based on a preliminary risk assessment, and suggests that suppliers should be required to submit prices based on this limit of liability, with alternative prices for other limits of liability that may be proposed by the supplier. Indeed the Guide states that estimating appropriate liability limits is one of the essential steps in achieving value for money.

The lower the risk the procurement, then the simpler the risk assessment will be. Although the Guide is primarily targeted at low risk procurements, it gives guidance on how to evaluate medium to high risk procurements, and how to determine a limit of liability in those cases as well. The Guide does not state what the 'compelling reasons' might be for using unlimited liability.

How Might it Work in Practice?

In order for this Policy to give the Federal Government the benefits of lower costing ICT goods and services, a broader competitive market, and appropriate risk sharing arrangements, the Policy will need to be widely and rigorously implemented.

This means of course that there needs to be effective communication of the new Policy to the relevant agencies, both at the senior levels and at the sharp end where the procurement policy hits the tender documents. Procurement officers need to have effective training, and be given access to the necessary external expertise to conduct the risk assessments, and negotiate limits of liability with suppliers. Similarly suppliers need to change their approach from the common 'multiple of fees' position to capping liability, to provide caps of liability that can be supported by risk assessments.

Whilst it is true to say that the types of liability that are outside of the cap are broadly consistent with many substantial contracts with non-government organisations the real issue will be "what is the quantum of the cap". This is real concern given that the case studies in the Guide give examples of dollar values of caps, which are derived from their risk assessments, which are significantly greater than dollar values that would be typically found in contracts with non-government organisations for transactions of a similar nature.

The Policy has not dealt with the situation where the risk assessment results in a cap of liability that is too high for suppliers to accept. Indeed in any contract the supplier has to do its own risk assessment, and determine

whether the risks that it is being asked to bear are sufficiently rewarded by the profit that the goods or services will bring.

Summary

Let's not underestimate the significance of this change in policy, and the potential impact that it may have for suppliers and agencies alike. Agencies will no longer be saying that uncapped liability is 'policy', and suppliers will need to change their approach on capping liability. The critical issue will be how this policy is implemented, and whether risk assessments will generate proposed caps of liability that are acceptable to the ICT suppliers. At the very least, we have a framework in which to have those discussions.

And finally the Guide is essential reading for everyone involved in ICT procurement, and it provides not only an explanation of risk assessments, but an interesting explanation of the Federal Government's reasoning and positions on the issues.

References

The ICT Liability Policy is contained in Finance Circular 2006/03 "Limited Liability in Information and Communications Technology Contracts", which is included as an appendix to the Guide.

The Guide is available from www.dcita.gov.au

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Protection of domain names - what rights does a licensee have?

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In the recent case of *Hoath v Connect Internet Services Pty Ltd*¹, the NSW Supreme Court dealt with claims

arising out of various changes to the ownership and administration of the internet business "Dragon Net" in the

period between 2000-2002. The case is useful for its treatment of the following issues:

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- the availability of the tort of passing off to protect domain names;
- whether misrepresentations as to the ownership of a domain name and Internet Protocol (IP) addresses made to an internet registrar can constitute misleading and deceptive conduct under the Trade Practices Act 1974 (Cth); and
- whether domain names, IP addresses and Autonomous System ("AS") numbers are considered to be "property" capable of protection under the tort of conversion.

Background

Mr Hoath registered the business name "Dragon Net" and the domain name "dragon.net.au" in 1995. From 1998 to 2000 Mr Hoath carried on an ISP business under those names through two companies which he controlled, mortgage.com.au Pty Ltd ("Mortgage") and ITFirst.com.au Pty Ltd ("ITFirst").

In September 2000, ITFirst sold some of its customer base to another internet company called Spin Internet Services ("Spin"). As part of the sale of customers, Mr Hoath allowed Spin and Com-Cen Pty Ltd ("Com-Cen") (a company closely connected with Spin) to temporarily take control of the domain name. Com-Cen also had the registration of the IP addresses and AS number associated with the Dragon Net domain name transferred to it. However, relations between Mr Hoath and the principals of Spin and Com-Cen deteriorated soon thereafter.

As a result of the souring relationship, in June 2001, Mr Hoath requested Connect Internet Services Pty Ltd (the relevant domain name registrar) (the "Registrar") to transfer the domain name back to him. The Registrar did so but then re-transferred the domain name back to Com-Cen based on a misrepresentation by Com-Cen that Spin (and, by association, Com-Cen) had purchased the right to use it when Spin bought ITFirst's customers.

Then in August 2001, Mr Hoath also had the IP addresses and AS number transferred back to him. Yet they too were soon re-transferred back to Com-Cen based on another misrepresentation made by Spin to the Asia Pacific Network Information Centre ("APNIC") (the relevant IP address and AS number registrar) that Spin had purchased the IP addresses and AS number from ITFirst.

This tug-of-war led Mr Hoath and Mortgage (together, the "plaintiffs") to commence proceedings against the Registrar, Spin, Com-Cen and the principals of Spin and Com-Cen. Their claims were for passing off, misleading and deceptive conduct and conversion (amongst other things).

Passing Off

The court found that Mr Hoath's company, Mortgage, had a substantial reputation in the ISP business by September 2000 under the Dragon Net business and domain names. It was not in dispute that after that time, Com-Cen and Spin used those names and held themselves out to be associated with Dragon Net.

However, Spin claimed that it had acquired the domain name when it acquired ITFirst's customer base either because the customer base included the domain name or because business efficacy led to an implication that the customer base could only be sold with the domain name. The court rejected this argument, stating that the customer sale agreement did not include the domain name and that while the sale might have been more valuable if it had included the domain name, that did not necessarily lead to an implication that the two must be sold together.

Accordingly, the court found that Spin and Com-Cen only had a licence to use the domain name during the transfer of customers, but not one to use the name indefinitely. By June 2001 when relations broke down, Mr Hoath had revoked that licence.

The court then considered whether the residual goodwill Mortgage had in the domain name as of June 2001 (8

months after Mortgage had ceased operating) could sustain a claim for passing off. In order to do so, Mortgage needed to show that Spin and Com-Cen misled customers into believing that their internet services were from the same source as or were connected with Mortgage's internet services and that these representations damaged Mortgage's goodwill and reputation in the domain name.

Since it was not in dispute that Com-Cen and Spin had associated themselves with the Dragon Net business and domain names and because their licence to do so was revoked during June 2001, the plaintiffs succeeded in their passing off claim for the period after June 2001. The court also held that because there can be no goodwill in IP addresses and AS numbers, any passing off claim with respect to those assets failed.

Misleading and Deceptive Conduct

The plaintiffs claimed that Com-Cen and Spin's representations to the Registrar and APNIC that they had purchased the rights to use the Dragon Net domain name, IP addresses and AS number (together "the Dragon Net internet assets") induced the Registrar and APNIC to re-transfer those assets to Com-Cen and amounted to misleading and deceptive conduct under the Trade Practices Act.

The court found that the sale of customers from ITFirst did not include the Dragon Net internet assets. Nor did the court accept the evidence of one of the principals of Spin who stated that he honestly believed Spin had purchased them. Accordingly, those representations were misleading. The court also found that the representations were sufficiently commercial in character to be "in trade or commerce" for the purposes of the Trade Practices Act (although no submissions were made by any party on this point) so the plaintiffs' misleading and deceptive conduct claim was also successful.

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Conversion

Another claim made by the plaintiffs concerned whether Spin and Com-Cen's dealings with the Dragon Net internet assets after June 2001 constituted the tort of conversion.

Conversion would be available to the plaintiffs if they could show that Spin and Com-Cen's dealings with the Dragon Net internet assets were repugnant to the plaintiffs' immediate right to possess the property (if any) in them. However, the court referred to a NSW Court of Appeal decision that confirmed that conversion is only available for goods that are capable of physical possession.² This did not include intangible property.

While the court assumed, without deciding, that Mr Hoath's rights with respect to the Dragon Net internet assets were proprietary (because those rights were valuable, assignable and exclusive), it made clear that if they were proprietary rights, they were only intangible proprietary rights. However, the court pointed out that the law recognises an exception to the rule that conversion is not available to protect intangible property where that property is embodied or evidenced in some physical form, such as a cheque or share certificate.

In this case, the Dragon Net assets were only embodied (if at all) in the computer hardware owned by Connect and APNIC, so the plaintiffs' claim for conversion failed.

The court took note of a US Court of Appeals decision that held that conversion is available to protect tangible and intangible property and so is available to protect domain names.³ However, the court in *Hoath*

was bound to follow the NSW Court of Appeal and so did not extend conversion to cover domain names.

What this means for you

Issues that domain name licensees should be aware of:

- when dealing with your domain name rights, make clear exactly what rights you intend to give to the other party and the conditions under which those rights are given;
- if you have built up goodwill in your domain name, you may be able to protect that goodwill by using the tort of passing off if other businesses wrongfully associate themselves with your domain name (although passing off will not be available to protect your IP addresses or AS numbers);
- although the court in *Hoath* assumed that domain names are a form of property, wrongful dealings with any supposed property in domain names cannot, at least at this time, be protected by the tort of conversion, and other proprietary torts. It should be noted that certain policies imposed by the Australian Domain Name Administrator (auDA), which, importantly, were not considered in *Hoath*, limit the circumstances in which .au domain names (as opposed to .com or other types of domain names) can be transferred. Therefore, if a court were to thoroughly address this issue in the future, it might hold that .au domain names are not in fact

property at all.⁴ In any event, *Hoath* and the auDA's policies show that the ways of dealing with and protecting .au domain names are more limited than, for example, the ways of dealing with and protecting other business assets.

Issues that prospective domain name transferees should be aware of:

- before dealing with a domain name registrar, know your rights with respect to the domain name you propose to deal with so that you do not represent any false information, otherwise you may be liable under the misleading and deceptive conduct provisions of the Trade Practices Act (and possibly for other actions as well).

¹ [2006] NSWSC 158.

² *Ferguson v Eakin* (NSW Court of Appeal, 27 August 1997, unreported).

³ *Kremen v Cohen* 337 F 3d 1024 (9th Cir. 2003).

⁴ I am not aware of any other cases in Australia that have referred to domain names as "property". The auDA states that "there are no proprietary rights in the domain name system . A registrant does not 'own' a domain name. Instead, the registrant holds a licence to use a domain name, for a specified period of time and under certain terms and conditions". Accordingly, until there is further Australian judicial treatment of the topic, it remains doubtful whether .au domain names can be considered to be a form of property.