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CGF POINT OF LAW

E-NEWSLETTER OF CLARKE GITTENS FARMER - ATTORNEYS-AT-LAW



ABOUT



Clarke Gittens Farmer is one of the principal firms law Barbados. The firm commercial law firm, providing legal services for both domestic and international corporate and private clients. The firm strives to provide high quality work in banking, corporate, commercial, business law and commercial litigation. The firm also advises clients on the purchase and sale of residential and commercial property in Barbados maintains a significant trademark and patent registration practice.

INTRODUCTION

In this issue of our newsletter, we feature articles from both our Property and Commercial Departments.

Our first article is part one of a two part series and provides an analysis of penalty clauses in contracts and their enforceability while also detailing points which contract drafters may consider.

The law relating to easements is examined in our second article, also part one of a two part series, which details the characteristics of easements and the different ways in which easements may be obtained.

If you are planning on engaging in a transaction in Barbados that involves either foreign currency or a non-resident of Barbados then our third and final article should be of particular interest to you. This article details the applicability of the Exchange Control Act Cap 71 of the Laws of Barbados particularly as it relates to payments, securities and capital moneys.

We hope you enjoy!

~ The e-Newsletter Committee~

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The Penalty Rule is Now a Centenarian. Has it Become Wiser?

By Mrs. Anya J. Harrison, Associate

Genuine Pre-estimate or Penalty

A penalty clause is a clause in a contract which requires the breaching party to pay or forfeit a sum of money to the innocent party. Generally, the penalty clause has been held to be unenforceable unless the payment or forfeiture can be justified as a genuine pre-estimate of the loss the innocent party will suffer as a result of the breach. Lord Dunedin states in the English common law case of *Dunlop Pneumatic Tyre Co Limited v New Garage & Moto Co Limited*:

'...The essence of a penalty is a payment of money stipulated as...[a threat to] the offending party; the essence of liquidated damages is a genuine covenanted pre-estimate of damage...'

'...It will be held to be a penalty if the sum stipulated for is extravagant and unconscionable in amount in comparison with the greatest loss that could conceivably be proved to have followed from the breach.'

Restatement of Penalty Rule

A century later the United Kingdom Supreme Court's focus has shifted from the rule in the *Dunlop* case to the principle of contractual freedom in complex commercial cases.

In Cavendish Square Holding BV v El Makdessi;
ParkingEye Ltd v Beavis² the United Kingdom Supreme

Court ("UKSC") considered in two appeals whether specific penalty clauses were unenforceable. The decision establishes that the tests in *Dunlop* are considerations; however, they may not apply to every case involving penalty clauses.

The *Dunlop* tests may apply more so when interpreting simple liquidated damages clauses, but may not be helpful in more complex cases where financial compensation means less than the innocent party's interest in performance. For example, in the case of the *El Makdessi* appeal the penalty clauses provided that the buyer did not have to pay any future instalments of the price and that the sellers would lose their put options if the sellers breached certain restrictive covenants. The UKSC held those clauses to be enforceable penalties; the buyer had a legitimate interest to ensure the seller observed the restrictive covenants, as the goodwill of the business was critical to its value to the buyer.

In *El Makdessi* the UKSC also differentiated 'primary obligations' as contractual obligations required to be performed from 'secondary obligations' as those generated by a breach. The restated doctrine of penalties only applies to secondary obligations; the true test is whether the provision is a secondary obligation

[1915] AC 79

² [2016] 2 All ER 519



The Penalty Rule is Now a Centenarian. Has it Become Wiser?

By Mrs. Anya J. Harrison, Associate

which imposes a detriment on the breaching party out of all proportion to any legitimate interest of the innocent party in the enforcement of the primary obligation.³

Conclusion

For some, the UKSC has provided a welcomed update to the law on penalties: if the parties have comparable bargaining power there is a greater prospect their penalty provisions will be enforced. For others, the restatement has the potential to cause inflation in liquidated damages to account for the associated risk.

The decision is likely to have some bearing on how complex penalty clauses are interpreted in Barbados. The following drafting points may be considered (where appropriate):

- identify the legitimate interests to be affected by the breach;
- state that the parties agree they are of comparable bargaining power and have been fully advised by their attorney or have obtained independent legal advice (where applicable); and
- draft in a way to highlight the importance of the penalty clause to show how instrumental it is in relation to the entire contract⁴.

These points are not exhaustive and do not guarantee a court will agree to enforce the penalty clause. However, it may increase the likelihood the penalty clause would be seen as a primary obligation.

In our next issue we will explore penalty clauses in contracts for the sale of land, particularly where a vendor can forfeit a 10 per cent deposit on the purchaser's failure to complete the purchase.





³ [2016] 2 All ER 519 at 538

⁴ Adapted from article of Rix, Jason. "New penalty test" Allen & Overy Publications. 15 December 2015. Web. 26 April 2017.



Just Passing Through: The Creation of Easements

By Miss Jaina O. Colucci, Associate

Miss Jaina O. Colucci

In the local case of *Hart et al v Pierce*¹ families in the Worthing area claimed, that since 1943 when they purchased their land, they had frequently used a narrow strip of land lying behind their houses and stretching from the Worthing Main Road down to the sea, to access the beach at Worthing. The owner of that strip of land contested that any right of way had been created and in 1964 attempted to prevent entry from the beach. The Court had to determine whether the families were in fact entitled to a permanent right of way over the strip of land. In our next issue we will conduct a further review of the *Hart* case, however, instances such as this are commonplace and showcase one of the curious methods by which a right of way can be created.



Within Barbados and throughout the Caribbean, rights of way are covered by the law of easements. Simply put, an easement is a proprietary right which attaches to a particular piece of land. It confers on its owner, a benefit or enhancement of his ordinary rights

in connection with his land, which allows him to either use the land of another person in a specific way or imposes a limitation on the use which that other person may make of their land. An easement can therefore be positive in nature, where it gives the right to do something on the land of another, for example, a right to pass or repass over a lot, or negative in nature where, it restricts the use of land. For instance, an easement of support implies that the owner of the land subject to the easement may not modify his land or building in a way that would disturb his neighbour's land or building.

For a right to be classified as an easement, certain characteristics must be present, namely:

- (1) there must be land over which the right is exercisable (the servient land) and land for which the benefit of the right exists (the dominant land);
- (2) the right must accommodate the dominant tenement, that is, it must be connected with the enjoyment or use of the dominant land²;

² Hill v Tupper (1863) 2 H & C 121; Re Ellenborough Park [1956] Ch. 131 at 170 what is required is that the right "accommodated and serves the dominant land and is reasonably necessary for the better enjoyment of that land, for if it has no necessary connection therewith, although it confers an advantage upon the owner and renders his ownership of the land more valuable, it is not an easement at all, but a mere contractual right personal to and only enforceable between the two contracting parties."



¹ BB 1967 HC 9

Just Passing Through: The Creation of Easements, Cont'd...

By Miss Jaina O. Colucci, Associate

- (3) the owners of the dominant land and the servient land must be different persons; and
- (4) the right must be capable of forming the subject matter of a grant, which means there must be certainty of description, there must be someone who is capable of receiving a grant of the right, and the owner of the servient land must be capable of granting the right.

A right of way across a neighbouring lot or strip of land is the most common easement, whether it is for general or specific purposes or exercisable over land in a development or limited to particular roads or road reserves within that development. Other typical easements landowners may come across are:

- the right to lay pipes for the supply of water or electricity cables across or under an adjacent lot;
- rights to light, which prevent the owner of the servient land from erecting a building or structure on their land which would obstruct the flow of light to the dominant land;
- a right to place signs on a neighbour's lot; and
- parking rights, allowing a person to park their vehicle anywhere in a defined area near to the dominant land.

So, how does one obtain an easement over the land of another? As with *Hart et al v Pierce*³, conflict often arises between the person(s) claiming entitlement to a right of way over a piece of land and the person who owns that land. The obligation of proving the right has

been validly acquired falls on the person claiming to be entitled to the right.

Express Grant

Easements are ordinarily created by express grant, whether by inclusion in a transfer of an estate in land or upon the grant of a lease where the new owner will enjoy the right over land retained by the vendor or landlord⁴ or by a deed designed specifically for that purpose e.g. a grant of right of way.

Implied Grant

These rights can also be created by way of an implied grant, which can arise by reason of necessity. For example, a right of way will be implied in a conveyance, where without the existence of such a right the property would be landlocked and could not be used at all. It will not be implied where it will merely be inconvenient or unreasonable for the owner of land to rely on an alternative means of accessing their land⁵. It is therefore always advisable for any potential purchaser, and most attorneys will advise them in this

⁵ There should be no other way of accessing either the land being sold or the land being retained.



³ BB 1967 HC 9

⁴ The vendor may grant the purchaser a right of way over the land retained by him or may reserve a right of way for himself over the land he is selling, where the purchaser immediately regrants the right of way back to him.

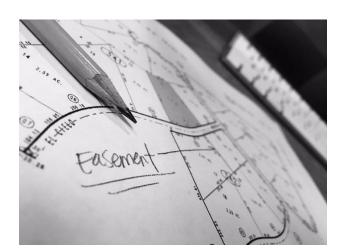
Just Passing Through: The Creation of Easements, Cont'd...

By Miss Jaina O. Colucci, Associate

manner, to not only review plans of the property being purchased but to also physically visit the land in order to check its surroundings and ensure there is adequate access.

An implied grant can also arise where it is inferred that it could only be the common intention of the parties involved in a transaction that a right should exist in order to give effect to the manner in which the land sold or retained was intended to be used. These types of easements are similar to those implied by necessity, but their scope and extent may be wider, depending on the established common intention. A right can therefore arise by implied grant where it is necessary to carry out a shared intention.

Another form of implied grant arises where, for example a vendor owns two adjacent lots (Lots A and B) and usually uses a path across one of those lots (Lot B). The purchaser of Lot A may be entitled to a right of way over Lot B⁶. Under the principle of non-derogation from grant, the purchaser of Lot A should not be in a position that is less advantageous than that previously enjoyed



by the vendor i.e. the purchaser is entitled to the same freedom of access enjoyed by the vendor. It operates to imply easements over the land retained by the vendor (in our example Lot B), once it is shown that the easements (i) are necessary for the reasonable enjoyment of the land sold by the vendor; (ii) have been used, and were used at the time of the sale, by the vendor for the benefit of the lot sold; and (iii) are continuous and apparent.

In an attempt to ensure a purchaser of land acquired any rights of way, easements or other rights and privileges previously enjoyed by the owner of the land, section 66 of the Property Act⁷ made it unnecessary to set out certain rights. The effect of this section is that on conveyance of the land, those rights exercised by the previous owner are granted to the purchaser automatically.

Prescription (presumed grant)

This is the oldest method of acquiring an easement, laid down in the common law and codified in legislative provisions⁸. A person who has benefitted from an easement for twenty years or more, without physical or



⁶ The extent of the implied easement will reflect the extent of the right as it was exercised before the sale.

⁷ Cap. 236 of the Laws of Barbados

⁸ Section 35 of the Limitation and Prescription Act, Cap. 232 of the Laws of Barbados

Just Passing Through: The Creation of Easements, Cont'd...

By Miss Jaina O. Colucci, Associate

legal interruption⁹ by the owner of the servient land, acquires a permanent right based on the latter's acquiescence. To obtain an easement by prescription, it must be proven that the right was not exercised by force, secretly or with the permission of the servient owner. Thus if the person has to break through a locked gate in order to pass, or passes through in such a way that he could not be spotted by the owner of the land, or has obtained verbal or written consent from the owner of the servient land, they will not acquire a right of way. Similarly, if B, the owner of the servient land, sues for trespass after A has been regularly passing over a track on his land for the past twenty-five years, but for the last six years A ceased using the right of way after B erected a fence across the path, A's right could be contested on the basis that B did not acquiesce to A's conduct, having interrupted A's enjoyment of the right.

As you can see, easements can be very important to land owners, especially where without the benefit of such a right the enjoyment or use of their land would be significantly limited or diminished. Thus, an understanding of how these rights can be obtained may be crucial. Similarly, information on this topic is also relevant to those land owners who do not wish to have their land made subject to these rights and can be applied by them, upon obtaining legal advice, to prevent or at least control what rights may affect their land.

In our next issue when we discuss the *Hart* case in greater detail, we will examine the scope of easements and how they can be extinguished.





⁹ "interruption" is a technical term referring to some overt act or obstruction, by the owner of the servient land or a third party, which prevents the use of the right and shows that the easement is disputed. It does not refer to a mere decrease in the regularity of the actual use.



The Exchange Control Act - Do You Need to Obtain Exchange Control Approval for Your Transaction?

By Miss Lanasia N. Nicholas, Associate

Miss Lanasia N. Nicholas

Planning on engaging in a transaction in Barbados that either involves foreign currency or concerns a party who is a non-resident of Barbados? Perhaps it entails the transfer of securities, real property, or requires payment of foreign currency. If so, you may be required to obtain exchange control approval before engaging in the transaction.

The Exchange Control Act Cap. 71 of the laws of Barbados ("the Act") regulates the flow of foreign exchange in Barbados. The Act is based on the English Exchange Control Act 1947 which has, in turn, served as a model for several Caribbean islands including Barbados.

This article will highlight key provisions of the Act, particularly as it relates to payments, capital moneys and securities.

The Act provides a number of circumstances in which the approval of the Exchange Control Authority ("the Authority") is required. Pursuant to Section 3 of the Act, the Exchange Control Authority is the Minister of Finance. The Minister of Finance however, has delegated much of his authority to the Central Bank of Barbados, which has the responsibility for the regulation of foreign currency. The Central Bank, in turn, has delegated some of its authority to financial institutions designated as Authorised Dealers and Authorised Depositories by Order under the Act.

The provisions in the Act have a far-reaching effect as obligations and prohibitions imposed in the Act apply to all persons including non-residents of Barbados subject

subject to the express limitations contained in the provisions of the Act.

Gold and Foreign Currency

Only Authorised Dealers are permitted to purchase, sell, borrow or lend gold or foreign currency within their prescribed limits to a person who is not an Authorised Dealer, without the Authority's approval. All other persons in Barbados who wish to engage in these transactions require the permission of the Authority to do so. Preparatory acts as well as those associated with such transactions are also prohibited. Therefore, a person in Barbados may not sell, purchase, lend, or borrow foreign exchange without the Authority's permission unless it is to an Authorised Dealer/ Authorised Depository.

Payments

In respect of payments made to, or for the credit of or on behalf of a person resident outside of Barbados, the Act stipulates that approval from the Authority is required. This includes placing any sum to the credit of any person resident outside Barbados. Persons resident in Barbados are prohibited from doing any act which involves, is in association with or preparatory to the making of any payment to or for the credit of any person resident outside Barbados.

The Act does not apply to payments by international business companies ("IBCs") in respect of their international trade and commerce, and international manufacturing or international societies with restricted liability ("ISRLs"). The Act however expressly provides



The Exchange Control Act - Do You Need to Obtain Exchange Control Approval for Your Transaction?, Cont'd...

By Miss Lanasia N. Nicholas, Associate

expressly provides that where a person resident outside Barbados has paid a sum in or towards a satisfaction of a debt due from him, the Act does not prohibit the acknowledgement or the recording of the payment.

From time to time, a contract executed in Barbados may involve a party who is not a resident of Barbados. A term of the contract may provide that the other party who is a non-resident is to receive payment. The parties will require the prior permission of the Authority to effect payment. These contracts should include exchange control approval as a condition precedent and the parties are required to obtain the approval of the Authority before such a contract takes effect.

Compensation Deals

Parties to a contract may sometimes wish to provide that the consideration for the sale of property, located in Barbados, or services performed in Barbados be paid outside Barbados. In this respect, the Act stipulates that a person is prohibited from making a payment to or for the credit of any other person as consideration for or in association with the receipt out of Barbados of any moneys due under such contracts without the Authority's permission. Similarly, the Authority's approval is required where a resident of Barbados intends to make payment for the purchase of property located outside Barbados.

Any contract which involves the transfer to any person, or the creation in favour of any person, of a right (whether vested or contingent) to receive a payment outside Barbados or to acquire property located outside Barbados requires the Authority's approval.

Securities

Secured transactions are a pervasive feature within the Barbadian commercial context and are strictly regulated by provisions in the Act. Securities either registered or required to be registered in Barbados are prohibited from being issued outside Barbados, without the Authority's permission where the proposed security holder or the person on whose behalf he acts as a nominee is a non-resident of Barbados. IBCs and ISRLs are however exempt from prohibition with respect to the issue of securities.

Similarly, a security registered in Barbados (unless exempted) may not be transferred in or outside Barbados, without the Authority's permission where the transferor, transferee or their nominee is resident outside Barbados. A declaration as to residence is needed and documentary evidence of residence must be provided to the issuer before the security is transferred.

Therefore, a shareholder of a domestic limited liability company that intends to transfer securities to a non-resident and a member of a domestic society with restricted liability that intends to transfer securities to a non-resident will require the Authority's permission to do so. While the transfer of securities of an ISRL is exempt from obtaining approval of the Authority, there is no specific exemption from the Authority's approval provided for IBCs in legislation with respect to the transfer of securities.



The Exchange Control Act - Do You Need to Obtain Exchange Control Approval for Your Transaction?, Cont'd...

By Miss Lanasia N. Nicholas, Associate

For the purposes of those sections in the Act which prohibit the transfer of securities, the Act states that a person is deemed to transfer a security if he executes any instrument of transfer whether or not it is effective, and it is deemed that the security is transferred at the place where he executes the instrument.

Payment of Capital Moneys outside Barbados

There are instances where parties to a contract wish to agree that capital moneys payable on a security registered in Barbados be paid outside Barbados. The permission of the Authority is however required in these circumstances. There may also be instances where the certificate of title to a security is registered in Barbados and capital moneys payable on the security are paid outside Barbados without production of the certificate to the person making the payment.

The Authority's approval is also required to effect these transactions.

Note that any permission, consent or authority granted by the Authority may either be:

- a) general or special;
- b) revoked by the Authority;
- c) absolute or conditional; and
- d) limited so as to expire on a specified date, unless renewed.

Penalties

Criminal sanctions apply for breaches of restrictions of the Act. If found guilty, an offender may be subject to pay a fine or imprisonment or both a fine and imprisonment.





ATTORNEY PROFILE

Mr. Michael J. Koeiman, Associate

In this issue we continue our series of profiles of the firm's associates. We profile Mr. Michael J. Koeiman, one of our associates in the Litigation Department.



Michael Koeiman, a Barbados Government Exhibition winner, pursued legal studies at the University of the West Indies ("UWI"), Cave Hill Campus Barbados. He graduated from that institution in 2006 with an LL.B. (Hons) degree.

Following UWI, he attended the Hugh Wooding Law School, Trinidad and Tobago and obtained the Legal Education Certificate in 2008. He was called to the Barbados Bar in that year.

Michael interned with Clarke Gittens Farmer in 2006, the final year of his LL.B. programme. He returned to the firm the following year for an in-service attachment where he was exposed to the civil litigation, property and corporate practice areas.

At the end of his studies at the Hugh Wooding Law School, Michael commenced his career in the Litigation Department as a Legal Assistant. Since his call to the Barbados Bar he has assumed the position of Associate in the Litigation Department.



CGF NEWS

Seminars and Workshops

Our Partner, Mrs. Rosalind Smith Millar presented at a seminar titled "Conveyancing and Secured Lending" to the Barbados Bar Association at Hilton Barbados Resort on 25 February 2017 and co-presented a lively and interactive seminar on Trademarks at the Barbados Bar Association headquarters on 8 March 2017.

On 22 and 23 March 2017, attorneys from the Commercial and Corporate Departments attended the Barbados Fair Trading Commission Training Workshop on Competition Law and Policy at the Accra Beach Hotel & Spa. The members of the firm who attended the workshop benefited from key insights provided by officers of the Barbados Fair Trading Commission and the United States Federal Trade Commission. Areas of competition law such as mergers and abuse of dominance were explored and several local case studies were examined.

Additionally, our Mrs. Nicola Berry, a Partner in the firm's Commercial Department was a member of the panel which discussed the topic "Operating in a Post-Brexit World". This panel discussion formed part of the Barbados International Business Association Business Forum which was held on March 31, 2017 at the Lloyd Erskine Sandiford Centre.

On 22 April 2017, Mr. Dario Welch an Associate in the firm's Property Department, co-presented a seminar entitled "The First Steps to Home Ownership" to the Rotaract Club of South Barbados.

Clarke Gittens Farmer Mooting Competition

The 2017 Clarke Gittens Farmer Mooting Competition was held at the Faculty of Law, University of the West Indies, Cave Hill Campus in March 2017. The areas of focus were: Criminal Law, Contract Law and Real Property Law. The finals of the competition took place on 9 March 2017 and the winners of the competition were as follows:

- First Year Students: K-Wani Roberst & Andeisa Weste
- Second Year Students: Shenika Codrington & Ashellica Fahie
- Third Year Students: Lisanna Walks & Kashawn Wood

The firm congratulates all of the participants in this year's competition for their stellar performance!





CGF NEWS Cont'd...

Publications

Our Partner, Mr. Kevin Boyce, as well as Associates Mr. Michael Koeiman and Miss. Shena-Ann Ince, published a Q&A guide to enforcement of judgments and arbitral awards in Barbados for Thomson Reuters Practical Law. This publication forms part of the "Enforcement of Judgments and Arbitral Awards in Commercial Matters Global Guide", and may be accessed at:

https://uk.practicallaw.thomsonreuters.com/Document /I48ab3179241911e798dc8b09b4f043e0/View/FullText. html?transitionType=SearchItem&contextData=(sc.Sear ch&firstPage=true&bhcp=1

Staff Activities

We took a Hike!

The Staff Committee's first event for the year took the firm on a gruelling three (3) hour early morning hike on Sunday, 5 March 2017. Twenty-two (22) persons (including staff, family and friends) took part in the gully trek from Holetown, St. James through to Lancaster and back to Holetown. The hike was guided by Mr. Troy Bannister and his team.



Staff Activities, Cont'd...

Health Fair

The firm's second Health Fair was held on Friday, 31 March 2017. The mobile unit of the Barbados Cancer Society's Breast Screening Programme provided the opportunity for staff to be screened for breast cancer. Nurses from the Edgar Cochrane Polyclinic were on hand providing flu and tetanus shots and counselling on mental health and nutrition. Retired nurses were also on hand providing blood sugar and cholesterol testing and blood pressure checks. Additionally, HIV testing was provided by the Ministry of Health through the HIV Commission.

Skin analysis/evaluation was performed by the staff of Massy Distribution (Barbados) Ltd and General Distributors Inc. provided samples of their DIMES juice line. The hand, neck and shoulder massages provided by Ankh Harmony Massage Services were well received.





CGF POINT OF LAW

CGF POINT OF LAW published by Clarke Gittens Farmer is an e-Newsletter for clients, colleagues and friends of the firm. This e-Newsletter provides an overview of notable news and legal developments.

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<u>Partners:</u> Managing Partner: Mr. Ramon O. Alleyne. Senior Partner: Mr. T. David Gittens, Q.C. Other Partners: Mr. Stephen W. Farmer, Q.C., Miss Gillian M. H. Clarke, Mrs. Savitri C. B. C. St. John, Ms. Debbie A. P. Fraser, Mrs. Rosalind K. Smith Millar, Mr. Kevin J. Boyce and Mrs. Nicola A. Berry.

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