

## **Criminal prosecution for IP offences – the reality**

### **Introduction**

Most of us practising in the intellectual property space, will blissfully travel through our chosen careers with little or no contact with the criminal implications arising from the same conduct. This short piece identifies my observations on choosing to depart from the well-worn track of enforcement of IP rights.

### **The scenario**

Often driven by an apologetic for the system, one seeks to find satisfactory commercial outcomes wherever possible. However, sometimes it becomes quite challenging.

The case, a copyright owner of numerous photographs of articles and their individual detailed descriptions, marketed its wares on the popular online trading stores eBay. The owners of the business noticed the appearance of a competitor using identical images and essentially the same descriptions. After sending the usual cease and desist communication alleging infringement of private rights and contravention of consumer protection provisions, which produced no result, an interlocutory injunction was secured.

A very early mediation was sought on the premise, that the compensatory loss at an early stage would not be dissimilar to the costs to be incurred in compliance with the timetable.

The mediation was not successful and in accordance with the orders, the applicant filed its statement of claim. The respondents failed to file a defence and the applicant moved for default judgment under Rule 5.23 of the Federal Court Rules 2011 for the failure to comply with an order and in the alternative, summary judgment under Rule 5.23 of the Rules. In relation to summary judgment, although a defence was not filed, evidence in answer to the application for interlocutory injunctive relief would be relied upon in the application.

Before the hearing date set, the corporate respondents went into voluntary liquidation and the individual into voluntary bankruptcy. The respondents owned several properties and had secured a prestigious dealership.

### **Immediate impact**

Of course, upon the passing of a resolution for voluntary winding up of a corporation, no further action in the proceeding may be taken with the Court's leave: s 500(2) of the Corporations Act 2001.

In relation to bankruptcy compensatory loss claimed does not of course amount to a provable debt. The Australian Financial and Securities Authority notes on its site at <https://www.afsa.gov.au/creditors/provable-debts> the following:

#### Non-provable debts

Non-provable debts are not covered in administrations and the debtor still has an obligation to pay these debts. Creditors owed these debts cannot claim in the administration and cannot participate in dividends that may be paid. However, creditors with non-provable debts may pursue the debtor for payment of the debt even if the debtor is a party to an active administration.

The difficulty in the case being that there has been no judgment or assessment of loss at the time of bankruptcy, therefore there is no debt but only a claim.

Relevantly, if a party becomes bankrupt, during a proceeding but a cause of action in the proceeding survives, the proceeding is not dismissed only because of the party's death or bankruptcy: Rule 9.09 of the Federal Court Rules. In a note to the provision, the Rules state that the Court may make an order for the future conduct of the proceeding.

#### **What is the problem?**

The problem of course is that having incurred expenses for initiation of the process, mediation and an application to end the proceeding early, there is little incentive to press the civil prosecution with little prospect of recovery of costs.

In those circumstances, a client who believes that there was a flagrant disregard of their copyright, might seek to have others not suffer the same fate.

#### **Relevant copyright provisions**

Remedies and offences are contained in Part V Division 5 of the Copyright Act 1968. Relevantly, s 132AC says in relation to works and subject matter other than works:

#### Indictable offence

(1) A person commits an offence if:

- (a) the person engages in conduct; and
- (b) the conduct results in one or more infringements of the copyright in a work or other subject-matter; and
- (c) the infringement or infringements have a substantial prejudicial impact on the owner of the copyright; and
- (d) the infringement or infringements occur on a commercial scale.

(2) An offence against subsection (1) is punishable on conviction by a fine of not more than 550 penalty units or imprisonment for not more than 5 years, or both.

Note: A corporation may be fined up to 5 times the amount of the maximum fine (see subsection 4B(3) of the *Crimes Act 1914*).

#### Summary offence

(3) A person commits an offence if:

- (a) the person engages in conduct; and
- (b) the conduct results in one or more infringements of the copyright in a work or other subject-matter; and
- (c) the infringement or infringements have a substantial prejudicial impact on the owner of the copyright and the person is negligent as to that fact; and
- (d) the infringement or infringements occur on a commercial scale and the person is negligent as to that fact.

Penalty: 120 penalty units or imprisonment for 2 years, or both.

The provisions further provide some guidance as to what constitutes infringement on a commercial scale: s 132AC(5).

Naturally, the Australian Federal police (AFP), as the principal law enforcement agency through which the Commonwealth pursued its law enforcement interest, inquiry was made into the process a complaint could be laid.

The AFP's functions are set out in section 8 of the *Australian Federal Police Act 1979*. These functions include the provision of police services in relation to :-

- laws of the Commonwealth;
- property of the Commonwealth (including Commonwealth places) and property of authorities of the Commonwealth;
- the safeguarding of Commonwealth interests; and
- to do anything incidental or conducive to the performance of the foregoing functions.

In a submission to the House of Representatives Standing Committee on Legal and Constitutional Affairs inquiry into Enforcement of Copyright in Australia (the Submission),<sup>i</sup> the practicality of prosecution takes on the following dimension:

While copyright legislation falls under Commonwealth law, there are a range of factors to be taken into account by the AFP in determining whether a matter, irrespective of its nature or type, is accepted for investigation and secondly, the priority it is to be afforded.

Examples of the issues involved include the availability of limited resources; competing priorities; judgements about the level and extent of the criminality involved in the particular matter; the prospects of an investigation leading to a successful prosecution; the likely impact and outcome of police involvement; and the availability of alternative means of resolving the particular case.

Considerations include incident type, impact, priority, resources, duration and the value. Underlying this evaluation and prioritisation process is the need to ensure that available resources are applied to those tasks which return maximum value to the Government and people of Australia.

All matters referred to the AFP for investigation, whether they relate to illicit drugs, serious fraud, intellectual property or copyright-type offences are examined by national and regional operational coordination centres to assess whether the AFP will accept or reject the referral.<sup>ii</sup> The applications are considered by assessing and weighing up the referral with the relevant consideration criteria.<sup>iii</sup>

Recent investigation indicates that these comments are still in 2014 applicable and the foundation for the AFP consideration of copyright prosecution.

### **In summary**

As a guide, and in order to deploy the limited investigative resources to 'high end' criminality.<sup>iv</sup> The following matters might be observed:

- the AFP resources will be directed predominantly toward the protection of the Commonwealth (including its authorities) interests in accordance with its designated functions under the *Australian Federal Police Act 1979*.
- Limited resources are directed to 'high end' criminality, predominantly because the targeted criminal activity will have the most impact;
- Although organised crime permeates into a wide range of legitimate commercial activity, the large scale manufacturing of counterfeit copyright goods, indicates organised criminal activity. However, the AFP, 'in the case of those copyright cases which it has investigated, has not established any significant evidence to substantiate the involvement of organised criminal groups within Australia in copyright infringement.'<sup>v</sup>
- Factors will include:
  - Absence of jurisdictional issues;
  - Likelihood of clear prosecution;
  - Difficulty in collecting evidence;
  - Value to the community at large and the Commonwealth to deter the activity;
  - Alternative methods of protecting the rights.

### **Take home point**

The observation could be made that even though the referral might be rejected, a referral would have a better chance of success, if it was considered in a similar way one considers prospects in a summary judgment application.

Specifically, if:

- in a summary judgment application there has to be lengthy detailed examination of documents, lengthy cross-examination in order to arrive at the case for early disposal, it is not likely to be successful;
- the other side has an argument in response, which will involve protracted investigation and difficulty of decision, such as competing views of a contract between the parties, it is not likely to be successful.
- it appears that the defendant has no reasonable prospect of successfully defending the proceeding, this would be more appealing for prosecution.
- coupled with a clear case of infringement, it appeared that there is a wider message to the community by the prosecution this would be more appealing for prosecution.

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<sup>i</sup> Submission by the Australian Federal Police dated June 1999

<sup>ii</sup> The Submission at page 3.

<sup>iii</sup> Ibid.

<sup>iv</sup> Ibid.

<sup>v</sup> Ibid at page 4.