

**AUSTRALIAN GOVERNMENT
IP AUSTRALIA**

REVIEW OF PENALTIES AND ADDITIONAL DAMAGES

SUBMISSION

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Introduction

1. In November 2008, IP Australia issued an Options Paper¹ inviting comment in relation to a review of the penalties for criminal offences under the *Trade Marks Act* 1995 (Cth) and the extension of the power of the Federal Court (or a prescribed court), to grant, at its discretion, additional damages for trade mark infringement.
2. Submissions were directed to be sent by 27 February 2009. IP Australia has kindly permitted me to make some comments outside this time. Bearing in mind the indulgence extended to me and that recommendations are presently being formulated, I shall limit my observations to two areas:
 - (a) the appropriateness of empowering the courts with a discretion to make orders for additional damages arising due to shortcomings in the enforcement of trademarks; and
 - (b) the suitability of increasing criminal sanctions for trade mark infringement

Additional damages for trade mark infringement

3. The Options paper identifies that the power to award additional damages exists in relation to other forms of intellectual property, namely Registered Designs, Patents and Copyright.²
4. The Copyright Law Review Committee in its 1959 report (also known as the Spicer Report), upon which the *Copyright Act 1968* (Cth) was based, made the recommendation for a form of punitive damages for flagrant disregard of copyright.
5. Specifically, the Spicer Report, in recommending the adoption of aspects of the Copyright Act 1956 (UK) noted:

309. Section 17 (3) [of the UK Act] enables a court, in an action for infringement, to grant exemplary damages where it thinks such a remedy is appropriate having regard to

¹ IP Australia, *Review of penalties and additional damages Trade Marks Act 1995*, Options Paper, November 2008.

² *Copyright Act 1968* (Cth) s 115(4); *Patents Act 1990* (Cth) s 122(1A)); *Designs Act 2003* (Cth) s 75(3))

the flagrancy of the infringement and any benefit accruing to the infringer.

(Underline mine)

The Spicer Report then recommended that provisions to the effect of s 17 be enacted, with some allowance for an exemption for compensatory damages in the case of an innocent infringer.³

6. Therefore, when enacted the *Copyright Act* provided for the flagrancy of the infringement of the work and the benefit to the infringer as the two factors to consider in an application for additional damages.
7. Reproduced below for convenience is the relevant provision as it exists today under the *Copyright Act*, which was amended in 2000 and 2003:⁴

4) Where, in an action under this section:

- (a) an infringement of copyright is established; and
- (b) the court is satisfied that it is proper to do so, having regard to:
 - (i) the flagrancy of the infringement; and
 - (ia) the need to deter similar infringements of copyright; and
 - (ib) the conduct of the defendant after the act constituting the infringement or, if relevant, after the defendant was informed that the defendant had allegedly infringed the plaintiff's copyright; and
 - (ii) whether the infringement involved the conversion of a work or other subject-matter from hardcopy or analog form into a digital or other electronic machine-readable form; and
 - (iii) any benefit shown to have accrued to the defendant by reason of the infringement; and
 - (iv) all other relevant matters;

the court may, in assessing damages for the infringement, award such additional damages as it considers appropriate in the circumstances.

³ See Spicer Report recommendation 31 in the Summary of Recommendations at [504].

⁴ Section 115(4) was amended by the *Copyright Amendment (Digital Agenda) Act* 2000 (Act 110 of 2000 s 4 and Sch 1 item 96A) in relation to the introduction of the factor of conversion into a digital or other electronic machine-readable form (s 115(4)(B)(II)); The additional elements of the need to deter similar infringements (s 115(4)(b)(ia)) and the defendant's conduct after infringement and/or the receipt of notice (s 115(4)(b)(ib)) were introduced by the *Copyright Amendment (Parallel Importation) Act* 2003 (Cth) (Act 34 of 2003 s 3 and Sch 4 item 1) effective 13 May 2003.

8. It will be noted that flagrancy and the benefit to the infringer (s 115(4)(b)(i) and (iii)), are now only two of a number of matters which a court might take into account in assessing whether additional damages should be awarded. The court only needs to be satisfied that one or more of these circumstances exists to enliven the discretion.⁵
9. The inclusion of additional damages in the designs regime is relatively recent compared to its evolution in the copyright regime.
10. The *Designs Act* 2003 (Cth) relevantly provides:
 - 75(3) The court may award such additional damages as it considers appropriate, having regard to the flagrancy of the infringement and all other relevant matters.
11. The limitation of the factors in the *Designs Act* to flagrancy and ‘other relevant matters’, results I would suggest, from the fact that the *Designs Act* 2003 was the result of the implementation of the Australian Law Reform Commission Report (ALRC) of 1995.⁶
12. Although, the ALRC recommendation referred to the power in relation to copyright in terms of flagrancy, this reflected the limitation of copyright additional damages at that time to flagrant conduct and the benefit to the infringer. Since the time of the ALRC report the *Copyright Act* has ‘evolved’ through the development of the common law in this area, reflected in the amendments referred to above.
13. Like the *Designs Act*, the introduction of additional damages in the *Patents Act* 1990 (Cth) is a relatively recent occurrence.⁷

⁵ *Sullivan v FNH Investments Pty Ltd (t/as Palm Bay Hideaway)* (2003) 57 IPR 63; [2003] FCA 323 at [91] per Jacobson J; appeal to the Full Court dismissed: *FNH Investments Pty Ltd v Sullivan* [2003] FCAFC 246 at [22].

⁶ Adopting the recommendation of the Australian Law Reform Commission in its report tabled in federal parliament on 31 August 1995 (Recommendation 151), the *Designs Act* 2003 incorporated additional damages in s75(3).

⁷ s 122(1A) of the *Patents Act* 1990 (Cth), was inserted by the *Intellectual Property Laws Amendment Act* 2006, s 3 and Schedule 5, item 1, which commenced 28 September 2006.

14. For convenience, this relevantly states:

(1A) A court may include an additional amount in an assessment of damages for an infringement of a patent, if the court considers it appropriate to do so having regard to:

- (a) the flagrancy of the infringement; and
- (b) the need to deter similar infringements of patents; and
- (c) the conduct of the party that infringed the patent that occurred:
 - (i) after the act constituting the infringement; or
 - (ii) after that party was informed that it had allegedly infringed the patent; and
- (d) any benefit shown to have accrued to that party because of the infringement; and
- (e) all other relevant matters

15. The instances of copyright and trade mark issues both arising in a particular case are more likely to occur than between trade mark and patent cases. This is due to the 'artistic work' aspect of many trade marks. However, given:

- (a) The inapplicability of the digital conversion factor in the copyright legislation; and
- (b) The adoption in the *Patents Act* of all the other factors stated in the *Copyright Act*;

I support the option to include in the *Trade Marks Act*, a provision allowing for the award of additional damages, in similar terms to the *Patents Act*.⁸

16. I have perhaps put the cart before the horse. I have above indicated my preference as to the terms of the provision for additional damages to be included in the *Trade Marks Act* 1995 (Cth).

17. I support the introduction of additional damages in trade mark infringement actions, as I consider that their availability will be relevant and useful in cases where compensatory damages are nominal.

18. The ALRC report stated, in the design review:

⁸ Options Paper paragraph 12 'Civil Options Remedies' at p25.

In the copyright context there may be circumstances where no other remedy may be appropriate, for example, where there is an unlicensed broadcast of a sporting event... This would remedy the problem faced by a party where there is obvious infringement but the loss is small compared to the likely cost of litigation.⁹

19. The following scenario is constructed from actual cases in which I have been and am currently involved and which I hope to indicate the ‘gap’ additional damages in trade mark cases will fill.

Relevant facts

20. My client is a world famous club. It has in excess of 125 charters in Europe alone. It has an extensive trade mark portfolio registered in Australia, comprising marks containing graphic elements (the graphic marks) as well as marks comprising of words only (the word marks).
21. A number of clothing manufacturers have (in my opinion), used marks substantially identical with or deceptively similar to:
- (a) the graphic marks
 - (b) the word marks
- on clothing which are marketed through retail stores or through the internet to the public.
22. In circumstances where a clothing manufacturer uses a graphic mark on one item of clothing (garment 1) and a word mark on another line of clothes (garment 2), the following possibilities arise:
- Copyright infringement for the graphic mark;
 - Trade mark infringement for the graphic mark;
 - Trade mark infringement for the word mark; and
 - Trade practices and passing off claims in respect of each mark.
23. The difficulty which arises for trade mark owners in this situation because of the basic philosophy of compensatory damages which are awarded by a court. The damages under the *Trade Marks Act*, specifically under s 126(b)

⁹ 14.6 and 14.7 of the ALRC Report.

are compensatory in nature and are only designed to compensate the trade mark owner for the loss suffered by reason of the infringing conduct.

24. Damages under the other intellectual property statutory regimes seek similarly to compensate for the loss.
25. In many cases, where competitors are involved, that loss translates into a loss of sales by the trade mark or IP owner. At its highest point, the trade mark owner would argue that for every sale made by the respondent, which involved an infringement of the trade mark, this amounted to a loss of a sale by the applicant trade mark owner.
26. The courts have in many cases adopted an alternate approach of charging a royalty fee or license fee for the use of the intellectual property. However, the application of such a methodology would not be appropriate where there is good evidence to show that it is extremely unlikely that the IP owner or trade mark owner, for present purposes, would not have granted a license, as in the case of competitors.
27. In a recent dress design case,¹⁰ although the parties were competitors in the fashion industry in the general sense, the fact that the applicant sold its dresses through upmarket boutique stores and the respondents sold copies in bargain bins, was taken to indicate that the applicant would not have lost sales as they were each marketing to a different type of customer.
28. Her Honour upheld the application for infringement of the design and dismissed the cross-claim for invalidity. Review was awarded the sum of \$85,000, being made up of \$35,000.00 compensatory damages and \$50,000.00 as additional damages.
29. The basis of the compensatory damages was the loss of the opportunity of the applicant, Review, to launch an innovative design on the market.
30. In a recent software case,¹¹ Collier J considered that the applicant had not established loss of sales or the impact (detrimental or otherwise), on the value of its mark or on the effect upon its reputation by the conduct of the respondent.

¹⁰ *Review Australia Pty Ltd v New Cover Group Pty Ltd* [2008] FCA 1589 (Kenny J, 24 October 2008).

¹¹ *Bing! Software Pty Ltd v Bing Technologies Pty Limited (No 1)* [2008] FCA 1760 (Collier J, 25 November 2008).

31. Her Honour distinguished *Review* noting that in that case there was evidence of some minor dilution of the applicant's reputation for originality. In *Bing* however, Collier J found that there was no evidence that there had been any dilution of the applicant's reputation or mark, but rather some 'short lived' confusion by a small number of consumers: [125].
32. Applying these principles to the Club scenario which I have related, indicates that the compensatory loss will be difficult to assess or be of any great value. The Club is not in the clothing business so a loss of sale approach will not succeed. Further, the Club would not licence its marks, so the royalty approach is inappropriate.
33. In such cases, the trade mark owner would look to the copyright claim in order to seek additional damages. The use of the word mark, would not be the basis of a copyright action as there could not be copyright in the word or several words as such. This places pressure on the copyright case, which holds the key to additional damages.
34. In the copyright case, the use of the word mark on garment 2, could only at best be a matter for the court's consideration under the heading 'all other relevant matters'.¹²
35. It is of some comfort that even where compensatory damages are nominal, additional damages could provide the court with some needed flexibility.¹³

¹² S 115(4)(b)(iv) of the *Copyright Act*.

¹³ In *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* (2007) 157 FCR 564; 71 IPR 437; [2007]FCAFC 40 at [41] per Black CJ and Jacobson J and [113] per Rares J, where additional damages were awarded yet only \$1 was awarded as compensatory damages under s 115(2) of the *Copyright Act*.

Final remarks

36. I therefore support the introduction of additional damages into the relief that might be granted by a court for trade mark infringement.

37. As I stated in the introduction, in the light of the indulgence I would limit my observations. Consequently, I will not make any detailed submissions on the other options set out in the Options Paper, namely:

- Increasing penalties for existing offences;
- Introducing summary offence ‘versions’ of the existing offences,

both of which I am in favour. This is simply on the basis, in relation to the first, that there is consistency with other jurisdictions and on the second, that a record of a criminal conviction may act as a deterrent in lower level offences.

38. I will say however, that the introduction of jury trials in relation to criminal prosecutions in intellectual property cases, may be something which the future holds.

39. Although the Federal Court of Australia has the power to order that any matter or issue of fact be tried before a jury and although that possibility has been raised from time to time, no order for a jury trial has ever been made in the 30 year history of the Court. That is likely to change very soon.¹⁴

40. The Chief Justice of the Federal Court was referring to the proposal to confer criminal jurisdiction on the Federal Court of Australia to try offences of serious cartel behaviour following the recommendation of the *Review of the Competition Provisions of the Trade Practices Act*.

41. His Honour states, that the Court has always has some criminal jurisdiction in areas related to the Court’s civil jurisdiction, such as intellectual property and workplace relations. In relation to those offences Black CJ says that as these were relatively minor and in the nature of summary offences, they were not prosecuted by indictment and so could be heard by a judge sitting alone.¹⁵

¹⁴ Black CJ of the Federal Court of Australia, *The Introduction of Juries to the Federal Court of Australia*, Reform, Issue 90, 2007 at 14.

¹⁵ Ibid at 15.

42. It is my understanding, that the Federal Courts are having facilities altered to accommodate these anticipated jury trials.
43. Accordingly, the activity and resources involving the Federal Court in the trial of a greater number of criminal prosecutions under the *Trade Practices Act* might be utilised to try more serious trade mark and copyright offences.
44. In addition, the recent announcement in the Media Release of 5 May 2009, that the Federal Magistrates Court (FMC), General Division, will be absorbed into the Federal Court as a second tier of the Court, would seem to open a convenient porthole for the handling of the summary offences raised in the Option Paper.
45. Prior to this announcement, the FMC, was following the accepted recommendation of the Advisory Council on Intellectual Property in its 2004 report, to have its jurisdiction extended to design and trade mark matters.¹⁶ The FMC has had for a number of years jurisdiction in copyright matters.
46. The Federal Magistrates accepting positions in the General Law jurisdiction of the Federal Court, could provide the vehicle for the prosecution of summary offences under the trade marks and copyright regimes.
47. Those are my submissions. Thank you once again for the opportunity to contribute comment.

Yours sincerely

Dimitrios Eliades

¹⁶ In November 2003, the Advisory Council on Intellectual Property (ACIP), after consultation with interested parties and written submissions, reported to the then government on the Terms of Reference entitled:

'Should the jurisdiction of the Federal Magistrates Service be extended to include patent, trade mark and design matters?'

On 5 April 2007, after consideration of the recommendations of ACIP, in a Media Release (07/125), the Minister of the former portfolio of Industry, Tourism and Resources announced the government's response to the report. Relevantly, it stated that the government had agreed to extend the jurisdiction of the Federal Magistrates Court to hear trade mark and design matters.

