

## FEDERAL COURT

### **Infringements of trade marks and copyright – adequacy of compensatory damages, damages to reputation and additional damages pursuant to s 115 of the *Copyright Act 1968* (Cth) - costs – requirements of O 23 of the *Federal Court Rules 1979* (Cth) and *Calderbank v Calderbank* [1975] 3 All ER 333 – whether offer of compromise and rejection letter considered by Court in the exercise of its general costs discretion**

*Facton Ltd (formerly known as G-Star Raw Denim KFT) v Seo* [2011] FCA 344 (Gordon J, 12 April 2011)

#### **Background**

##### *The claims*

This decision relates to an appeal from the decision of a Federal Magistrate, who made findings in relation to copyright infringement, contravention of ss 52 and 53 of the *Trade Practices Act 1974* (Cth) and trade mark infringement, the latter under the court's associated jurisdiction under s 18 of the *Federal Magistrates Act 1999*.

The appellants (jointly G-Star) designed, manufactured, advertise and sold G-Star branded clothing and accessories. The products were sold wholesale and distributed in Australia to franchise stores and over 40 independent retailers. The G-Star products were branded and the trade marks associated with the products, were owned or applied with the authorisation of G-Star under licence for the use of the trade marks and any copyright associated with G-Star logos.

G-Star claimed that the respondent (Mr Seo) offered counterfeit G-Star product for sale and thereby:

- infringed the G-Star trade marks in breach of s 120 of the *Trade Marks Act 1995* (Cth);
- infringed G-Star's copyright in G-Star logos;
- constituted misleading and deceptive conduct in contravention of s 42 of the *Fair Trading Act 1987* (NSW) and false representations under s 44 of the FTA;
- was passing off his product as that of G-Star.

##### *The Federal Magistrate's decision*

The federal magistrate found in favour of G-Star: *Facton Ltd & Ors v Chung Lim Sports Cap Pty Ltd & Ors* [2010] FMCA 584. On 10 September 2010, the federal magistrate ordered Mr Seo to pay G-Star:

- \$500 as compensatory damages;
- \$15,000 for damages to reputation;
- \$15,000 additional damages pursuant to s 115 of the *Copyright Act 1968* (Cth); and
- costs until 5 May 2010, with Mr Seo's costs from 6 May 2010 to be paid by G-Star, both sets of costs to be taxed pursuant to the *Federal Magistrates Court Rules 2001* (Cth) in default of agreement.

Each party each party was ordered to bear their own costs of the hearings over 6 days. The costs decision is contained in the reasons as *Facton Ltd & Ors v Chung Lim Sports Cap Pty Ltd & Ors (No 2)* [2010] FMCA 735 (the costs decision), and is reflective of a determination that ‘the parties [were] roughly equally responsible for the various difficulties that have obtained, and they cancel each other out’: [17] of the costs decision.

#### *The Appeal and cross appeal*

G-Star appealed against the assessment of damages and certain aspects of the costs orders. Her Honour set out with particularity at [6] to [9] of the reasons the grounds of appeal. In summary, these related to errors G-Star claimed were made by the Federal Magistrate:

- in finding that there were only 5 infringing products in the assessment of general damages and damages to reputation;
- in not accepting the full breadth of the appellant’s witness that other infringing copies were available at another stall, other than the stall of Mr Seo in the same markets;
- in not finding that at least 40 counterfeit products should have been taken into account for the purpose of compensatory and additional damages;
- in the assessment of compensatory and additional damages, by concluding the garments were ‘bad copies’ rather than assessing the logos and the works on the garments, to determine whether the infringing works were substantial reproductions of the copyright works;
- that certain conduct of Mr Seo was not taken into account sufficiently or at all, in assessing additional damages;
- in relation to costs on several grounds, including a finding that G-Star should have accepted an offer contained in a letter from Mr Seo’s solicitors.

Similarly, her Honour set out with particularity at [12] of the reasons the grounds of cross-appeal. In summary, these related to liability issues and Mr Seo claimed were made by the Federal Magistrate:

- on the issue of standing of the second appellant, based on a finding of an exclusive licence granted to it by the third appellant;
- whether a fair trial by reasons of rulings on objections to evidence;
- by permitting a witness of G-Star to give evidence when there was no basis for a finding of specialised or expert knowledge under s 79 of the *Evidence Act 1995* (Cth);
- a failure to make a *Jones v Dunkell* inference by reason of G-Star’s failure to adduce evidence about material returned by Mr Seo to G-Star’s solicitors;
- from the preceding point, the conclusion that the material was likely to be counterfeit when there was no evidence adduced that they were;
- not considering purchases at the market made in an unorthodox way, might not be counterfeit;
- by treating a receipt in the bag with the product purchased as the receipt evidencing the transaction of that purchase.

#### **Decision**

The appeal and the cross-appeal were dismissed.

## Reasons

Gordon J dealt with the liability elements of the cross-appeal [13] to [47], the appeal grounds [48] to [65] and thereafter the issue of damages [66] and costs raised by Mr Seo in not being granted indemnity costs from 6 May 2010.

In dismissing the appeal and cross-appeal, her Honour found:

### *Cross-appeal*

- On the question of exclusive licensee - although contrary to the pleading, there was no evidence to support the FM's finding that the second appellant was the exclusive licensee in Australia of the G-Star products, the affidavit evidence of G-Star included a statement by G-Star's general counsel, that the second appellant was the 'exclusive wholesaler and distributor of the G-Star products in Australia', and the deponent was not cross examined or challenged. In addition, there was evidence of expenditure by the second appellant in Australia on promotion of products and sales to its franchisee in Australia.
- Her Honour could not identify any error in the reasoning of the FM on the evidentiary matters raised by the cross-appeal in the next successive 3 grounds.
- The FM had a basis to reasonably understand that the returned goods were counterfeit. Mr Seo had admitted purchasing and onselling G-Star branded products and did not suggest that the brands affixed to those products were affixed with the authority of the copyright and trade mark owners. Leaving aside the manner in which they were purchased by Mr Seo, the conclusion of the FM that the goods returned were counterfeit, was not only open, but the only conclusion on the facts: [43].
- The receipt in evidence bore the name 'Gas Fashion' (the trading name of the respondents at the markets), it was identified by Mr Seo as Gas Fashion and as there was no challenge to the authenticity of the document, the receipt was reasonably accepted as the receipt for the merchandise the subject of the 'trap' purchase.

### *Appeal*

Her Honour placed the appeal grounds in three categories: damages, reserved costs and the effect of the offer by Mr Seo in a letter. Her Honour found:

- The offer contained in a letter from Mr Seo's solicitors (relevantly reproduced at [52]), which was said to be made pursuant to Order 23 of the *Federal Court Rules*, did not comply with Order 41. Notwithstanding, the offer was taken into account by the FM on costs and G-Star submitted it should not have been. The letter offered: \$15,800 inclusive of interest; costs as per court scale and reserved costs as ordered. In the exercise of the wide discretion on costs, the FM's discretion did not miscarry and was not shown to have made an error of the type identified in *House v The King* (1936) 55 CLR 499 at 505.

- The FM erred in the number of items as not being less than 7. Her Honour considered that number was not less than 20 and assessed compensatory damages as \$2000, the FM calculating the loss at \$100 per item.
- As to the award of \$15000 for additional damages which Mr Seo disputed as excessive and G-Star as insufficient, her Honour said at [88]:

...although I accept that the Federal Magistrate erred when he made a finding that Mr Musulin thought the counterfeit products sold by Gas Fashion “were very bad copies”, I am not satisfied that the Federal Magistrate was mistaken as to a relevant fact. In awarding additional damages of \$15,000, each of the matters listed in s 115(4) of the *Copyright Act* was considered by the Federal Magistrate and, even if the number of counterfeit items was not less than 20, I do not consider that there is any basis to increase the award of additional damages by the Federal Magistrate.

- On the issue of reputational damages, her Honour noted at [93], G-Star had not provided evidence to indicate:
  - the importance of singularity, distinctiveness, quality or some other commercially valuable aspect of reputation to the victim; and
  - how, and to what extent, the infringing product or conduct damaged that aspect of G-Star’s reputation: see *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* [2007] FCAFC 40; (2007) 157 FCR 564 at [2], [34] – [35] and [39]; *Paramount Pictures Corporation v Hasluck* [2006] FCA 1431; (2006) 70 IPR 293 at [55]; *Review Australia Pty Ltd (ACN 122 295 836) v New Cover Group Pty Ltd (ACN 111 991 596)* [2008] FCA 1589; (2008) 79 IPR 236 at [44] – [46] and *Review Australia Pty Ltd v Innovative Lifestyle Investments Proprietary Limited* (2008) 75 IPR 289 at [29] – [31].
- Taking into account the number of garments was not less than 20 but not more than 40, the calculation of loss of reputation was difficult to assess. There was a finding of damage which was not the subject of appeal. If the extent of conduct were greater, the evidence referred to would be required. Damages for loss or reputation are compensatory and recognised. Her Honour noted *Elwood Clothing Pty Ltd (ACN 079 393 696) v Cotton On Clothing Pty Ltd (ACN 052 130 462)* [2009] 81 IPR 378 at [32]:

... an award of general damages is to be that sum which will put the [appellant] in the same position as it would have been in if it had not suffered the wrong. There is no dispute that, subject to issues of causation and foreseeability, any secondary loss, including damages to reputation, caused by the infringement is recoverable [*TS & B Retail Systems Pty Ltd v 3 Fold Resources Pty Ltd (No 3)* (2007) 158 FCR 444 at [207]-[208]].

- The award of damages reflected the facts: [98].

- No error as that identified in *House v The King*, accompanied the FM's determination in respect to reserved costs or indemnity costs.

Gordon J at [109] ordered the parties each bear their own costs of the appeal and cross-appeal:

This appeal and cross-appeal provide a good example of how litigation should *not* be conducted. The costs of the appeal (let alone the costs of the proceedings) substantially exceed the value of the claim. The parties are jointly to blame. Each party should bear its own costs of the appeal and the cross-appeal.

## **Comment**

There is no doubt that the *Civil Dispute Resolution Act 2011* will add pressure to explore avenues of resolution before initiating an action, particularly in cases where compensatory damages might be anticipated to be less than the costs to possibly achieve them. In such cases, the identification of damage to reputation, will take some prominence and the justification for commencement of proceedings, will lie in the area of injunctive relief.

It would seem that in such cases, a genuine undertaking to cease offending conduct or actually ceasing the conduct should ring alarm bells for stakeholders seeking to enforce their rights.

Although the legislation was assented to on 12 April 2011, the genuine steps statements are expected to appear in the revised *Federal Court Rules* from 1 July 2011.