

[2001] FCA 1098

13 August 2001

Introduction

His Honour Hill J of the Federal Court of Australia recently undertook the next phase in this lengthy course of litigation which had commenced in approximately 1990. Advanced Building Systems Pty Ltd, the first applicant (“Advanced”), owned a standard patent, which had been assigned to it by the second applicant, The Burke Company (“Burke”). The applicants sought from the respondent, Ramset Fasteners (Aust) Pty Limited (“Ramset”) damages for infringement of the patent or in the alternative damages for loss suffered as a result of misleading and deceptive conduct on the part of the respondent, proscribed by s.52 of the *Trade Practices Act 1974* (Cth) (“TPA”).

Background to Litigation

The liability issues had been determined by the second decision of the Full Court of the Federal Court (the “Full Court”)ⁱ. The matter was remitted to the Full Court by the High Court of Australiaⁱⁱ, for further determination of issues relating to the validity of the patent, and dependant upon that outcome, to determine the question of infringement and the issues arising under the consumer protection provisions of the TPA. These matters had been dismissed as a consequence of the Full Court’s first decision that the patent was invalid.

The Full Court, differently constituted, held that the patent was valid and found that the activities of Ramset amounted to a procurement of the infringement of the patent by user’s of its equipment. The Full Court further found that such activities constituted misleading and deceptive conduct within the meaning of the TPA.

A new trial was ordered limited to the question of damages. The Trial Judge, also Hill J, had not found infringement and although he had found there was a breach of the TPA, for which

injunctive relief was granted, did not assess damages as he was of the view that they were impossible to calculate.

His Honour was directed however, by the Full Court to assess the damages notwithstanding the difficulties this may present. Speaking on the calculation of damages the Full Court said:

“His Honour thought these problems were insuperable, and that the calculation of the damages, if any were sustained, was ‘just impossible’.”ⁱⁱⁱ

The Court went on to say:

“The measurement of the loss suffered may not be easy. But in Ungar v Sugg (1891) 8 RPC 385 at 388, cited by Terrell at §12.229, Wright J said:

‘No one can doubt that in this case there was substantial damage, and the difficulty and impossibility of stating the precise ground for assessing it at any particular figure does not seem to be a sufficient reason for giving only a nominal sum.’”^{iv}

Before the Court was the assessment of damages.

The Patent

The patent related to a ring clutch, which connected with an anchor which was embedded in a concrete wall or panel and used in relation to lifting the panel in the course of construction (the “patent”).

A principle object of the invention was to provide a method for using a quick release mechanism, the ring clutch, through the use of an extended lever arm. The release of the ring clutch from the anchor was activated by a cable attached to the lever arm, which blocked the rotation of the lever arm.

The Full Court was of the view that there was an infringement not only when there was an extended lever arm and rope release attached to the ring clutch, but also where a chain was attached to a shorter lever arm, in such a way as to block the rotation of the lever arm.

The case against Ramset for patent infringement was not for manufacturing the clutch but rather that in supplying the clutches to customers Ramset procured or induced customers to use the clutches in a way which infringed the patent.

Trade Practices

The Full Court found that Ramset's conduct in failing to warn its customers that use of certain of its products in a particular way could amount to a patent infringement did amount to misleading and deceptive conduct in contravention of s. 52 of the TPA.

His Honour said that while it was correct to conclude that failure to warn would constitute a breach of the TPA, it was also correct to say that there could be no loss to Advanced where the supply was made to a person who did not use the clutch in a way which would infringe the patent.

Difficulties in relation to the calculation of damages arose because it was not possible on the evidence to ascertain:

- i. the number persons who acquired clutches from Ramset who would have acquired clutches from Advanced;
- ii. which Ramset customers used the clutches supplied with extended lever arms or themselves added the extension; or
- iii. which Ramset customers used the clutches in a non-infringing way.

As part of the orders of the Hill J on 3 May 1995, a warning notice to Ramset customers (the 'original notice') was required to be fixed to any Ramset clutch, which was a warning against possible patent infringement where the clutch was modified by the attachment of:

- i. an extension to the lever arm; and
- ii. a release cable to the extended arm to effect remote release;

in circumstances where:

- iii. the modified clutch was attached to a crane hoisting cable;
- iv. the modified clutch was used in a face-lift tilt-up operation; and
- v. the release cable was used to effect remote release of the clutch.

The calculation was further complicated by the fact that the Full Court found that use of the clutch, where its lever arm was not extended but to which a chain and rope release were attached to the shorter lever arm was nevertheless an infringement.

Accordingly, by order made 16 August 1999, the Full Court required Ramset to attach to their clutches a new notification incorporating the warnings contained in the original notice and further warning that an infringement also occurred where the lever arm was not extended, but where a chain and rope release were attached to the shorter lever arm whereby the rotation of the lever arm was blocked.

After the order of 16 August 1999 Ramset developed a new clutch, which it submitted did not infringe the patent.

The Calculation

His Honour said that each supply by Ramset that involved a procurement of a patent infringement would involve necessarily a breach of s. 52 of the TPA. However, only those breaches of s. 52 of the TPA will involve procurement would lead to loss. Generally, his Honour

determined the loss as a percentage of the Australia wide sales Ramset in fact made in a particular period.

1 July 1988 to June 1993

Advanced was entitled in this period 1 July 1988 (the date Ramset first procured infringement) to June 1993 (the date of the order that Ramset's conduct was misleading or deceptive), to receive damages by reference to the proportion of sales which Advanced had made prior to Ramset entering into the market as against the proportion of sales of two competitors, Tilt-Lift Equipment and Alan H Reid Pty Limited, who at that time also provided clutches and componentry.

On that basis Advanced would have made approximately 50% of the Australia wide sales Ramset in fact made in this period in this period. This determination was subject to a number of matters, including the question of whether Ramset's intervention expanded the market.

June 1993 to 3 May 1995

Taking into account a territorial limitation of sales (that was conceded by Advanced), the fact that sales would be distributed amongst Advanced and the competitors and that there were some Ramset customers who did not use the clutches in an infringing way, a figure of 40% of the Australia wide sales Ramset was adopted for the period from June 1993 to 3 May 1995 (the date of the first infringement proceedings).

3 May 1995 to 5 July 1999

The Court found that it would overcompensate Advanced to apply the same percentage of loss in the period between 3 May 1995 and the Full Court judgement in 1999, as was applied in the period from first infringement to the first infringement proceedings. Allowance was made for the fact that there would be persons who came into the industry who did not use the Ramset clutches

in a way that would infringe the patent. In addition, there were others who were unaffected by the incomplete original notice either because they used the Ramset clutches by passing a rope chain without using it to block the lever arm or because they effected manual release.

Accordingly, Advanced was attributed 35% of Ramset sales for the period.

5 July 1999 to 13 August 2001

The damages allowed in the period from the Full Court decision in 1999 to the date of the present hearing were assessed at ½%. The Court took into account the fact that notwithstanding the warning formulated by the Full Court, such warning may not be 100% effective. Further that the life of the clutch could be quite lengthy and there would be those in the industry who had received no warning (or little warning) at the time they acquired the Ramset clutch and would continue to use the clutch in a way which infringed the patent.

Did Ramset expand the market?

The issue had to be determined as to whether Ramset by entering the market with a large sales force, could be said to have “grown” the market so that some sales it made in the various periods would not have been effected by Advanced or its competitors.

Advanced disputed this proposition, and submitted that there was a natural increase in the market because of the effect of its seminars, literature and word of mouth.

His Honour determined however, that Ramset’s entry into the market impacted on the size of the market, although it was difficult to determine the extent as a percentage factor. Regardless, this factor could not be ignored as it would overcompensate Advanced because if Ramset had been absent from the market, some sales would not have been present. A discount factor of 5% per annum was applied for the period from the first judgement to allow for the increased sales generated solely by Ramset’s presence in the market.

The effect of a non-infringing substitute

Ramset argued that the advanced damages should be limited, or taken to be virtually nil, because it was always open to Ramset to develop a non-infringing alternative and to do so relatively quickly.

It was not open to Ramset to defend the damages claim on the basis that a non-infringing substitute was available, although not in the market for sale during the infringement period.^v Whilst such a substitute was capable of being produced, the evidence showed that it was not. The test of causation can only apply with respect to a non-infringing alternative, where the appropriate substitute is instantly available on the market at the time of infringement.

Miscellaneous matters

A number of practical matters impacting on assessment were considered by Hill J.

Related companies

The evidence showed that Advanced had received assistance from related companies, for example, the salaries of certain persons employed by Advanced were paid by related companies. His Honour determined that those salaries should be adjusted by way of charge against profits in computing lost profit by Advanced.

Further, Advanced had received assistance by way of related party loans. It was held that interest on related party loans should not be notionally calculated where none had in fact been charged and thereby reduce the profit of Advanced. However, interest should be calculated on the amount of capital determined to be necessary to fund the additional sales and associated expenses relating to sales Advanced would have made which as a result of the Ramset conduct it lost to Ramset.

The solvency of Advanced

Ramset submitted that at all times Advanced was insolvent and therefore could not have made any additional sales at all. Ramset referred to increased borrowing, the rejection by a bank of a bank loan application and several other facts which led his Honour to say that:

“The group’s liquidity was clearly tight by 1993.”

After taking into account amounts such as legal fees paid by Advanced (approximately \$1.5m in the period 1989 to 1999), which it would not have had to outlay had Ramset not embarked on the course of conduct it did, there was no reason to conclude Advanced would have been unable to trade, or fund the necessary working capital to effect additional sales.

The effect of price differences in the competing products

Purchases from Ramset were made at prices less than those adopted by Advanced.

It was accepted that not all purchasers of Ramset products would have necessarily purchased from Advanced, because Advanced had higher prices.

His Honour said that an argument could be made that a discount factor should be applied to the sale proceeds to take into account the contingency that Advanced would lose sales because of price factors.

The Court noted however that, it was not possible to derive a precise figure and that there was no helpful evidence in this regard. The whole question was a matter of judgment and in the absence of any evidence that there was an active price war between Ramset and Advanced, no adjustment was considered necessary to allow for the possibility that Advanced might not, because of its higher prices, attract to itself all of the attributed Ramset sales.

The uplift factor

It was considered necessary in calculating the gross revenue, which Advanced might have expected to realise, to apply a factor to the Ramset prices, which reflected the greater prices at

which Advanced sold its products. As the Ramset sales were made at prices somewhat less than the prices at which Advanced could have expected to have made sales, the Ramset prices were increased by an uplift factor of 34% for anchors and 21% for other items.

Goodwill

The method to be adopted for the calculation of lost goodwill was to determine the loss of future maintainable earnings and apply to it a multiplier being derived from the rate of return a prospective investor would require from the business. Advanced argued that three years historical accounts should be taken as the basis of this calculation. However, having regard to the profit fluctuations and cyclical factors, five years' historical accounts, as submitted by Ramset, was the appropriate period to be used to predict future maintainable earnings.

Interestingly, the Trial Judge had not initially considered damages for loss of goodwill as justified when lost profit on sales were awarded. The Full Court disagreed by saying:

“The trial judge added a comment on a claim for damages for loss of goodwill, to which we should refer. He said that ‘to allow both loss of profit on sales and loss of goodwill seems to me to involve a double counting’. We respectfully disagree. Each individual sale may generate its own profit or loss, but, in addition, the effecting of a number of sales may have consequences for goodwill. Where compensation is awarded only in respect of profits lost on the aggregate of the individual sales, an applicant may be left uncompensated for adverse consequences relating to goodwill.”^{vi}

The alternate “royalty” approach

His Honour decided that as he had proceeded to calculate the loss Advanced suffered, it was not necessary to determine the alternative “usual” method or royalty payments.

He said^{vii}, that if it were necessary to compute a royalty per infringing item, being a common method adopted in order to calculate loss, the royalty rate to be adopted should be 5% of sales

up to \$AUD 1,000,000 and thereafter a royalty of 4% being the royalty rates paid by Burke for a period.

Orders were made that the accountant giving evidence on behalf of Advanced calculate the damages in accordance with the reasons, after which Ramset's accountant would respond to the calculation. Thereafter the matter would be re-listed for further determination.

Summary

A helpful decision dealing with some difficult issues in relation to the assessment of damages in this area. The inherent difficulty for his Honour was that as Ramset was not the party infringing the patent in that it used the clutch in an infringing manner, but rather it procured infringement by its customers. It was therefore difficult to estimate which of those customers did in fact use the clutch in a manner which infringed the patent. Accordingly, the royalty method was not considered appropriate.

The decision also assists in understanding factors the Court considers relevant in dealing with certain aspects that often arise in the assessment of damages, such as:

- the solvency of an applicant and its impact on future potential sales;
- some influences in determining the loss of goodwill component;
- the effect of variations in sales price in a competitive market; and
- certain aspects of related company transactions.

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ⁱ (1999) 44 IPR 481; 164 ALR 239.

ⁱⁱ [1998] HCA 19.

ⁱⁱⁱ 44 IPR 481 at 508 [60].

^{iv} 44 IPR 481 at 509 [64].

^v Ramset commenced this submission with the U.S. decision of *Grain Processing Corporation v American Maize Products Company* 185 F 3d 1341 (Fed Cir 1999).

^{vi} 44 IPR 481 at 509.

^{vii} [2001] FCA 1098 at [191]