

IPSANZ

“MANAGING QUANTUM EVIDENCE”

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“If you create something and someone takes it, they should have to pay for it”

(Professor Hugh Hansen, Fordham University, N.Y. Aug. 2003¹)

Introduction

1. Certainly, the area of proper compensation or remuneration for the infringement or compulsory acquisition of intellectual property rights is a matter from case to case.
2. In addition, it could be said that the inherent difficulty with intellectual property rights is that they may be difficult to assess. For example, the damage in a trade mark infringement case may be trying to identify what proportion of lost sales were attributed to the respondent’s mark and what may attributed to other factors. The swing may be due to dissatisfaction with the applicant’s product.
3. In this paper, I have considered several cases which highlight certain matters which are likely to be considered when approaching the question of damages. Although, the cases involve patent infringement and copyright infringement, I would submit that their principles have flexibility, giving them utility in the other recognised areas of intellectual property.

Patents

4. The *Patents Act* (Cth) 1990 (the *Patents Act*), provides the relief which a court might grant for patent infringement, to include injunctive relief on such terms at the court’s discretion, and at the option of the plaintiff, either damages or on the account of profits.²
5. Of course, all cases are instructional, however the *Advanced Building Systems v Ramset* 3 litigation is particularly helpful for a number of reasons in this area. The case considers the relationship between damages under s 82 of the *Trade Practices Act* (Cth) 1974 (the *Trade Practices Act*) and damages for patent infringement. It also shows how the court deals with a difficult assessment, based on anticipated infringements by end users.

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¹ A seminar held by the Queensland University of Technology, Faculty of Law, 2003.

² s 122(1) of the *Patents Act*

³ Relevant to the issue of damages: *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (1995) AIPC 91-129; *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* 44 IPR 481 (Full Court - Burchett, Sackville & Lehane JJ, 5 July 1999); *Advanced Building Systems Pty Ltd & Anor. v Ramset Fasteners (Aust) Pty Ltd* 52 IPR 305 (Hill J, 13 August 2001)

6. This litigation had had a history going back to 1993. On 23 April 1993, Hill J dismissed a cross-claim for revocation of the patent in suit, being the discrete issue for his Honour's determination at that point in time.⁴
7. The patent in suit involved the invention entitled "Lift Systems for Tilt-Up Walls", which involved a methodology of bringing concrete walls or panels into position in the course of construction (the Patent). The applicants (jointly Advanced) submitted that some of the advantages of the Patent included that concrete walls or panels could be prefabricated off-site and transported to the building site and erected. Alternately, they could be poured on-site and lifted into position. In each of these processes of construction, the wall, panel or other concrete item was required to be lifted by crane into position at the building site. The invention involved that process of lifting into position.
8. In 1995, Hill J delivered judgment in respect of claims by Advanced for infringement of the Patent and contravention of s 52 of the *Trade Practices Act*, granting injunctive relief in relation to the s 52 claim, but denying Advanced any award of damages.⁵ His Honour found that the respondents (jointly Ramset), did not infringe the patent.
9. The case against Ramset was expressed by his Honour in the following terms:

*"The allegation in the present case is that Ramset has infringed the patent by supplying components for use in face-lift operations, particularly clutches and anchors, in conjunction with instructions for use, those instructions being said to be found in the Ramset brochure, to which reference has already been made, or talks given by Ramset representatives to industry participants."*⁶
10. Ramset successfully appealed its claim for revocation to a Full Court leading to a revocation order of the Patent. Given the finding on validity, the court did not consider it necessary to consider *inter alia* the questions of patent infringement, or *Trade Practices* contravention, as these rested on the footing that the Patent was valid.⁷
11. An appeal by special leave by Advanced was successful and the matter was remitted to the Full Court for determination of standing grounds of appeal and the re-determination of the cross-appeal on damages.⁸
12. A reconstituted Full Court considered it had to determine the following three matters:
 - The integrity of the Patent as challenged by Ramset's cross-claim for revocation;
 - The infringement claims by Advanced Building Systems; and
 - The damages claim for infringement of the Patent and contravention of s 52 of the *Trade Practices Act* which was pursued by the cross-appeal.⁹

⁴ *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (1993) 26 IPR 171

⁵ *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (1995) AIPC 91-129

⁶ *Ibid* at [56]

⁷ *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1996) 34 IPR 256

⁸ *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (1998) 40 IPR 243

⁹ *Ramset Fasteners (Aust) Pty Ltd v Advanced Building Systems Pty Ltd* (1999) 44 IPR 481 at 483 [1]

13. The Full Court took up the issues of damages on the basis that the trial Judge did not find Ramset liable for infringement of the Patent and in so finding no question of assessment of damages for patent infringement arose. The Full Court noted, however, that Hill J did find Ramset had contravened s 52 of the *Trade Practices Act*.¹⁰

14. The Full Court then referred to that part of Hill J's finding on infringement:

"His Honour pointed out that Ramset did not retain control over the use of components in a particular manner, once they were sold. That was a matter for the building contractor or crane operator. On this aspect of the case, he concluded (at [65]):

*"The Ramset brochure demonstrated use of clutches with extended lever arms in a way which infringed the patent. That brochure was available, at least for inspection, to intended users of Ramset products. Although the brochure demonstrates the method of use in a way which would infringe the patent, in my view that does not involve Ramset in the necessary common design to constitute an infringement."*¹¹

15. Their Honours did not agree. The basis of their finding was that the evidence and the findings of the trial Judge indicated that Ramset had left very little to be done by the contractor.

"That way of putting the matter leaves some aspects of it out of account. It overlooks the evidence, evidence which his Honour accepted in the general finding set out earlier, and the admissions by some of Ramset's witnesses, that clutches were supplied, on a number of occasions, not only with extended lever arms, but also with release ropes attached. In those cases, Ramset was not just supplying a part of a combination the subject of a patent, but virtually the whole of it. All that remained to be done by the contractor was to provide a crane so as to make use of the combination, as the evidence showed happened on numerous occasions, in the manner directed by Ramset's brochure, which was an infringing use."

16. Hill J noted the grounds upon which Advanced needed to succeed for patent infringement¹² were "a common design...with another to do acts which amount to infringement, a procuring or inducing the other to infringe".¹³

17. The Full Court considered that these distinctions were "overlooked" by the trial Judge. Relevantly they said:

*"The other issue which, with respect, is overlooked in the final conclusion of the trial Judge (when he referred to "the necessary common design") is that Advanced and Burke were not relying only on common design, but in the alternative on Ramset's conduct as amounting to a procuring or inducing of infringement."*¹⁴

¹⁰ 44 IPR 481 at 507 [59]

¹¹ 44 IPR 481 at 505 [52]

¹² Under the *Patents Act* (Cth) 1952 which governed the litigation: see (1995) AIPC 91-129 at [66] –[73]

¹³ *Advanced Building Systems Pty Ltd v Ramset Fasteners (Aust) Pty Ltd* (1995) AIPC 91-129 at [60]

¹⁴ 44 IPR 481 at 505 [53]

18. Their Honours concluded from the evidence and the findings of Hill J, that Ramset procured the infringement of the Patent:

“On the evidence and the findings of the trial Judge, the conclusion is inescapable that when Ramset supplied the equipment complete with release ropes and instructions for use, it procured the infringements which followed. The position was not materially different when it left to the contractor the mere attachment of a rope (or when it left to the contractor, as well, the attachment of an extension to the lever arm) in accordance with the instructions for use it had given (through the brochure, through Mr Finlay’s product bulletin and seminars, and through its technical advisers), and in accordance with the operating practice it had established. Accordingly, a finding of infringement should have been made.”¹⁵

Damages

19. Hill J found that Ramset had contravened s 52 of the *Trade Practices Act*:

“I am of the view that the failure of Ramset to warn its customers that use of clutches or components in a particular waydoes constitute conduct in trade or commerce which is misleading or deceptive or likely to mislead or deceive users.”¹⁶

20. However, although injunctive relief was granted, Hill J determined not to award damages, based on his finding that there was no evidence to indicate that Advanced had suffered loss or damage by reason of Ramset’s conduct:

“The first difficulty is that Advanced must bring itself within s 82 of the Trade Practices Act. That section would require, in the present case, Advanced to show not merely a loss of sales and resultant profit, but also that any loss it suffered came about by reason of Ramset’s misleading and deceptive conduct. In other words, Advanced must show in respect of any loss that that loss was caused by the misleading and deceptive conduct of Ramset.

The evidence does not enable me to reach any such conclusion on the balance of probabilities. There is no direct evidence that any particular purchaser, had that purchaser been told of the potentiality of breach of Advanced’s patent, would have purchased from Advanced anchors or other items for use in a face-lift operation. Nor is this a matter of necessary inference.”¹⁷

21. In the absence of evidence as to loss of sales, his Honour pointed out the difficulties precluding a satisfactory conclusion on the balance of probabilities:

“A prospective purchaser advised of the potentiality of breach of Advanced’s patent would have had a number of options. The purchaser might have then

¹⁵ 44 IPR 481 at 505 [54]

¹⁶ (1995) AIPC 91-129 at [89]

¹⁷ (1995) AIPC 91-129 at [92] – [93]

approached Advanced and purchased some or all of the supplies required from Advanced. The purchaser might, on the other hand, have decided to take his or her chance and continued purchasing from Ramset. After all, the chances of Advanced taking proceedings against those who were in fact potential customers of Advanced was practically not high. The fact that Advanced took no such action against any person for infringement perhaps demonstrates the magnitude of the risk. Further, a purchaser may have received advice that the patent was not valid. That issue was, after all, quite arguable.

Alternatively, some purchasers might well have accepted that they should use the clutches without remote release or without an extended lever arm. Finally, some customers might well have decided to use a quite different system - there were other systems on the market.

All one can say on the evidence is that it is possible that an unquantifiable number of purchasers would have switched to purchase some, at least, of their supplies from Ramset. However, I am wholly unable on the evidence before me to make any finding as to how many would, on the balance of probability, have done so, or indeed if any would more probably than not have done so.”¹⁸

22. The Full Court agreed with Hill J’s determination that Ramset’s conduct amounted to a contravention of s 52 of the *Trade Practices Act*.¹⁹ Having found that Ramset infringed the Patent, the issue of damages then loomed. Their Honours said:

“Because the trial Judge did not find infringement, and did not consider the hurdle of causation had been overcome in respect of the misleading conduct he held to have been established against Ramset, there has been no attempt in this matter to make any assessment of damages on any basis. Unfortunate though it always is, when it is necessary to order a new trial, the only satisfactory remedy appears to be to order a new trial limited to the question of damages.”²⁰

23. The Full Court considered that it did not need to exhaustively consider the s 52 claim because any assessment would have involved doubling up, had damages been awarded for infringement of the Patent.²¹ However, the Court did consider the matter, as Advanced challenged the finding of Hill J not to award damages for the s 52 contravention.²²

24. As stated the Full Court agreed that Ramset had contravened s 52 of the *Trade Practices Act*:

“It is plain, on the evidence and the findings of the trial judge, that Ramset’s conduct was engaged in for the purpose of persuading customers to purchase the various forms of equipment it supplied for face-lift tilt-up operations.”²³

¹⁸ (1995) AIPC 91-129 at [94] – [96]

¹⁹ 44 IPR 481 at 510 [68]

²⁰ 44 IPR 481 at 509 [65]

²¹ 44 IPR 481 at 510 [66]

²² *Ibid*

²³ 44 IPR 481 at 510 [68]

25. The Full Court however found that the central issue in relation to Advanced’s failure at trial on issue of s 82 damages was stated in the following terms:

“If the damages could not be attributed, as a matter of causation, to the contravention of the Trade Practices Act, arguments about the manner of their calculations did not matter. Having commented that Ramset’s counsel had “properly protested”, his Honour did not rule, because he did not need to, on the question whether there should have been leave to re-open, and on what terms. He did not need to, because, on the view he took of the issue of causation any such leave would have been futile.”²⁴

26. Their Honours were of the view that the difficulties associated with the assessment of damages in relation to s 52 of the *Trade Practices Act*, would not necessarily be experienced when calculating damages for patent infringement because the fundamental problem of the effect of the misleading of customers by not informing them of the existence of the Patent thus did not arise.

27. Their Honours acknowledged that Hill J foreshadowed a difficult task in assessing damages in this case. They equally made it clear that such difficulty was not in itself a reason not to make an assessment or give nominal damages:

*“In the last sentence of this portion of his judgment, the trial Judge reiterated that the difficulty in the claim was “that causation has not been proved”. The same difficulty cannot be seen in relation to damages for infringement of the patent. The fundamental problem of the effect of the misleading of customers by not informing them of the existence of the patent does not arise. Damages sustained by the infringement itself may be approached directly. At the least, they may be measured by the attribution of a reasonable royalty: *Meters Ltd v Metropolitan Gas Meters (1911) 28 RPC 157 at 164–5, per Fletcher Moulton LJ*; Terrell on *The Law of Patents 14th ed, 1994, §12.228. But Advanced is not limited to this method of assessing damages. Advanced is “entitled, as damages, to the loss suffered by it as a result of the infringement”*: *Martin Engineering Co v Nicaro Holdings Pty Ltd (1991) 20 IPR 241; AIPC 90–799 at 37,583. It has been said in a Scottish case that “the measure of damage is prima facie the amount of profit which the Pursuers could have made if they had effected these sales themselves”*: *Watson, Laidlaw & Co Ltd v Potts, Cassels & Williamson (1913) 30 RPC 285 at 290, per Lord Dundas. As has been pointed out, there are countervailing considerations to such a prima facie inference in the present matter. 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.’

28. When the matter went to the Court of Appeal, Lord Esher MR said ((1892) 9 RPC 113 at 117):

²⁴ 44 IPR 481 at 509 [62]

*‘They were problematical damages, and had to be what is called guessed at: that is, not a mere guess, as if you were tossing up for the thing, but it must come to a mere question of what, in the mind of the person who has to estimate them, was a fair sum.’*²⁵

Loss of goodwill

29. Hill J found indicated that in his view a claim for loss of profit from sales and damages for loss of goodwill involved double dipping. The Full Court disagreed:

*“The trial Judge added a comment on a claim for damages for loss of goodwill, to which we should refer. He said (at [114]) 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.”*²⁶

Innocent infringement

30. The *Patents Act* makes provision for the financial relief that may be granted in circumstances where the respondent/defendant satisfies the court that, he, she or it had no express or constructive knowledge of the existence of a patent for the invention. S 122(1) of the *Patents Act* relevantly provides:

“122(1)A court may refuse to award damages, or to make an order for an account of profits, in respect of an infringement of a patent if the defendant satisfies the court that, at the date of the infringement, the defendant was not aware, and had no reason to believe, that a patent for the invention existed.”

31. The situation varies from the situation under the copyright regime, which allows the applicant to seek an account of profits in similar circumstances.²⁷ There is a presumption however, that the respondent was aware of the existence of the patent, in circumstances where:

- The patent involved products;
- The said products are marked to indicate that they are patented in Australia;
- The products were sold or used in the patent area; and
- The extent of the use was “substantial”.²⁸

²⁵ 44 IPR 481 at 509 [64]

²⁶ 44 IPR 481 at 509 [63]

²⁷ s 115(3) of the *Copyright Act* (Cth) 1968

²⁸ s 123(2) of the *Patents Act*; There does not appear to be a definition, regulation or case on point, to indicate what the term “substantial” might mean, even as a starting position.

32. In such circumstances, the onus passes to the respondent. The new *Designs Act* 2003 contains an innocent infringement defence, in like terms to the *Patents Act*.²⁹

The assessment by Hill J

33. The determination by his Honour necessarily revolves around the facts of that case, for example:

- in relation to aspects of patent infringement, functional features which impact on infringement and thereby affect damages;
- in relation to misleading and deceptive conduct, the effect of an order to attach notices to Ramset clutches.

34. However, the general approaches considered and adopted or rejected by his Honour reveal principles of wider application. His Honour, drawing breath before the task said:

*“So far as I understand the judgment of the Full Court and its rejection of the difficulties which I pointed out as existing in calculating damages where not all clutch supplies were infringing supplies and not all users in fact infringed the patent, it was the Full Court’s view on the evidence as it existed at the end of the first infringement hearing (and there is really nothing in the evidence adduced in the present phase of the proceedings which dispels that impression) that Ramset did both infringe the patent and breach the Trade Practices Act and that Advanced did suffer substantial damage, **no matter how difficult it may be to calculate with any precision, or indeed on any scientific basis, the quantum of that loss. So it is the task of the Judge charged with assessing damages to do the best he or she can with the evidence at hand and to come up with a figure which compensates, but not over-compensates, Advanced for the loss it suffered. In principle, it is difficult to see that the result should differ whether the loss compensated for is the procurement of others to infringe or the misleading and deceptive conduct.**” (Emphasis mine)*

35. The following were notable aspects of the submissions and findings:

- Advanced submitted that the supply of clutches by Ramset without the warning ordered to be attached, constituted misleading and deceptive conduct. Ramset “as an honourable company would, had it realised that it would breach s 52 absent a warning, never have entered the market at all”,³⁰
- Advanced submitted that Ramset would not have entered the market at all if it had to attach a warning;³¹
- Advanced concluded that “the consequence of Ramset not breaching s 52 of the Trade Practices Act would have been that Ramset would have made no sales.”³² If that was accepted, damages suffered by Advanced were either:

²⁹ S 75 (2) of the Designs Act 2003

³⁰ 52 IPR 305 at 318 [44]

³¹ Ibid

³² 52 IPR 305 at 318 [45]

- calculated on the basis that all Ramset sales would have been made by Advanced; or
 - if Advanced would not have made all sales made by Ramset, then the appropriate measure would be the proportion of the market share Advanced held with the other two companies which supplied clutches and componentry in the market prior to Ramset entering into the market.³³
- His Honour considered that if this approach was adopted it was necessary to “first determine what proportion of Ramset sales should be attributed to Advanced.”³⁴
 - Once the proportion of Ramset sales should go to Advanced, the next issue was what profit Advanced would make on those sales.³⁵
 - His Honour noted that “[t]here was considerable agreement between the accountants on many matters, but there were left for decision by me a number of matters on which the accountants differed.”³⁶ To assist this process the two accountants were sworn together and discussed their competing views. The process of at least settling between accountants (or experts generally), a schedule of agreed premises assists to streamline the proceeding.
 - “...the principle to be adopted was, it was said, to ascertain what profits, if any, Advanced would have made as patentee but for the infringement. This involved, it was submitted, identifying the extent to which Ramset infringed the patent and reconstructing the market to determine what additional sales Advanced would have made but for the infringement.”³⁷
 - the “non controversial” principle was, it was said, to ascertain what profits, if any, Advanced would have made as patentee but for the infringement.³⁸
 - Hill J noted the submissions by Ramset that:
 - The principle of what the patentee would have made must be measured with the “prospect” (as Ramset ultimately did) of promoting “a non-infringing commercial alternative” (but not if such a product was not on the market);
 - “Advanced’s accounting records were so unreliable that it was impossible to show what profits might have been earned but for the infringement”;
 - Advanced was insolvent and so the argument that it would have expanded the market was not available.³⁹
 - Ramset submitted that “there could be no infringement where end users did not use the clutch supplied in a way which infringed the patent.”⁴⁰

³³ Ibid

³⁴ 52 IPR 305 at 319 [47]

³⁵ Ibid

³⁶ Ibid

³⁷ 52 IPR 305 at 319 [48]

³⁸ Ibid

³⁹ Ibid

⁴⁰ 52 IPR 305 at 319 [49]

- In this case Ramset commenced with the question of patent infringement rather than breach of s 52 of the Trade Practices Act. The considerations and evidence for both may be and were in this case different.
- “Both sets of submissions....concealed a difficulty. While it is clear that the Advanced submissions look at the matter through the eyes of contravention of s 52 of the Trade Practices Act, whereas the Ramset submissions look at the matter through the eyes of patent infringement, they both fail to appreciate that the relevant contravention, whether for a breach of the Trade Practices Act or for patent infringement, is not a single act constituted by a course of conduct.”⁴¹
- Each clutch Ramset supplied was a “separate contravention” of the *Trade Practices Act*, just as each supply that constituted procurement involved a separate patent infringement. “Both, although in different ways, involve[d] a reconstruction of the market.”⁴²
- “While no doubt it is correct to conclude that failure to warn would constitute a breach of the Trade Practices Act, it is 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.”⁴³
- Consideration must be given as to whether there were circumstances which would not amount to a patent infringement or contravention of s 52 of the *Trade Practices Act* (or infringement or breach of the relevant rights).

36. His Honour said:

*“...it is clear that there were persons who did not rely on the representation constituted by the failure to warn when they acquired clutches without the warning. These were the persons whose use of the clutches would be a non-infringing use. To compensate Advanced for profits which it is suggested Advanced lost when Ramset made a supply which did not result in an infringement of the patent would, in my opinion, be unfair and hardly within the contemplation of the Full Court.”*⁴⁴

- The interphase between damages for procuring an infringement of the patent and s 52 of the *Trade Practices Act* can be difficult as seen from this passage:

“I do not think that the judgment of the Full Court in any way casts doubt on my conclusions in respect of s 52 of the Trade Practices Act and I certainly do not think that I can just ignore the consequences of the misleading and deceptive conduct which Ramset engaged in. It is obviously the case that each supply by Ramset of a clutch in circumstances which involve it procuring an infringement will likewise involve a breach of s 52 and damages for any loss suffered as a

⁴¹52 IPR 305 at 320 [52]

⁴² Ibid

⁴³ 52 IPR 305 at 321 [53]

⁴⁴ 52 IPR 305 at 321 [54]

result of the breach. However, not all breaches of s 52 will involve loss. It will be only those breaches which involve procurement. The damages for procurement or breach of s 52 should be identical. However, the case made under s 52 is wider in that the supply by Ramset of all clutches in the period involved conduct that was misleading and deceptive whether or not Ramset procured an infringement of the patent. This is so, notwithstanding that not all persons who acquired clutches from Ramset used them in a way which infringed the patent. Nevertheless, it was only where they did that Advanced suffered loss.”⁴⁵

Copyright

37. The *Copyright Act* provides that the relief that a Court may grant in an action for infringement of copyright includes an injunction (subject to such terms, if any, as the Court thinks fit) and either damages or an account of profits.⁴⁶
38. Tamberlin J in *Eagle Rock Entertainment Ltd v Caisley*⁴⁷ referred to the general principles for the assessment of compensatory damages under s 115(2) of the *Copyright Act*. Relevantly his Honour said:

“Damages under s 115(2) are compensatory in nature and the primary approach is that damages are measured by the depreciation caused by the copyright infringement to the value of the copyright as a chose in action: see Sutherland Publishing Co Ltd v Caxton Publishing Co Ltd [1936] 1 Ch 323 at 336 per Lord Wright MR; Microsoft Corp v Atifto Pty Ltd (1997) 38 IPR 643 at 647 per Tamberlin J. The principles concerning the quantum of damages for breach of copyright are outlined by Wilcox J in Autodesk Australia Pty Ltd v Cheung (1990) 94 ALR 472 at 474-477 and it is not necessary to restate those principles here. The principles referred to by his Honour have been applied in later cases: see, for example, Amalgamated Mining Services Pty Ltd v Warman International Ltd (1992) 111 ALR 269 at 285 per Wilcox J (Warman); Columbia Pictures Industries Inc & Tri-Star Pictures Inc v Luckins (1996) 34 IPR 504 per Tamberlin J; Microsoft Corporation v TYN Electronics Pty Ltd (in liq) (2004) 63 IPR 137 at [38] per Stone J.”⁴⁸

39. His Honour then identified two approaches to the issue of compensatory damages, the first being the “licence fee” approach:

“In the circumstances of this case, there are two alternative approaches to the assessment of damages in relation to the infringements in Australia. The first is the licence fee approach. The relevant question in relation to this approach is whether the applicant and respondent are in actual competition. Where this is the case, an issue arises as to whether the respondent might have been granted a licence by the applicant if it had been sought. In a case where a licence would probably have been granted, the measure of damages can be assessed by taking

⁴⁵ 52 IPR 305 at 324 [63]

⁴⁶ s 115 (2) of the *Copyright Act (Cth) 1968 (the Copyright Act)* However, there is an exception where damages are not available to a “new owner” of copyright in a sound recording of a live performance: s 100AG of the *Copyright Act*

⁴⁷ *Eagle Rock Entertainment Ltd v Caisley* (2005) 66 IPR 554

⁴⁸ *Ibid* at [10]

account of the licence fee or royalty that the respondent would have been made to pay by the applicant for a licence. However, in referring to these general guiding principles, it is important to bear in mind that they are not immutable and that the relevant factors on which damages can be assessed are broad and extensive. An applicant is not normally under a compulsion to grant licences. If the applicant would probably not have granted the respondent a licence, the Court will take into account the losses caused to the copyright owner by the competition posed by the respondent's sale of unauthorised DVDs. This will normally involve a consideration of any loss that the copyright owner has suffered by diminution of the sales of the copyright work or the loss of the profit that the copyright owner (or exclusive licensee) might otherwise have made.”⁴⁹

40. In that case his Honour did not consider that the appropriate approach was that the damages should be assessed by reference to a licence fee that Eagle could have charged a fee to make and sell the DVD.⁵⁰ His Honour said:

“I do not consider that Eagle would, if requested, have granted a licence to Caisley or that Caisley would have paid the licence fee if he was given the choice between so doing or not using the copyright work. The two parties were in direct competition. I note that, in some instances, the authorised DVD and the unauthorised DVD were sold from the same website. Therefore, there was a direct deprivation of profits that the applicant would otherwise have made.”⁵¹

41. The second approach (which was adopted) is based on loss of sales:

“The second basis on which damages (as opposed to additional damages) are sought relates to the making of master copies of the program in Australia and the provision of those copies under licence to entities outside Australia ... the damages are being sought as a measure of the consequences flowing from the making of the infringing master disks and the provision of them to overseas entities with the result that Eagle’s sales were lessened in those countries.”⁵²

The nexus between copyright infringement and compensatory damages

42. Practitioners should identify, when considering the issue of damage, the nexus between the infringement and the loss. This became acutely clear in the case of *MJA Scientifics International Pty Ltd and Anor v SC Johnson and Son Pty Ltd*⁵³.
43. On the point of establishing the nexus between the infringement and damages, his Honour said that damages under s 115 (2) of the *Copyright Act* were damages:

“... for the wrong done to the owner’s copyright as the incorporeal right. The measure of damages is a depreciation caused by the infringement to the value of the copyright as a chose in action: Sutherland Publishing Co Ltd the Caxton

⁴⁹ *Eagle Rock Entertainment Ltd v Caisley* (2005) 66 IPR 554; [2005] FCA 1238 at [11], [12]

⁵⁰ See also *Sony Entertainment (Australia) Limited & Ors v Smith & Ors* 64 IPR 18 at [121] where Jacobson J considered that it was unlikely that the applicants would have granted licences to the respondents, thereby finding that compensatory damages should not be assessed under s.115(2) of the *Copyright Act* on the basis of assumed licences.

⁵¹ *Ibid*

⁵² *Ibid* at [14]

⁵³ 43 IPR 287 (Sundberg J, 24 July 1998)

Publishing Co. Ltd [1936] Ch 323 at 336. *There is, however, no fixed method of assessment that applies to all cases. The purpose of such damages is to compensate the copyright owner for the loss he has suffered as a result of the breach: Interfirm Comparisons (Aust) Pty Ltd v Law Society of New South Wales (1975) 6 ALR 445.*⁵⁴

44. MJA's expert, a chartered accountant, gave evidence in relation to the loss to MJA. It was his evidence, that the damage which had flown from the breach of copyright came from the conclusion drawn from documents discovered by the respondents, that the respondent made a decision to produce a "look a-like" product with the intention of totally subsuming the market and obtaining 100% of the market shares. It was then concluded that in those circumstances the damage suffered by MJA was:
- a complete loss of the market over time;
 - the expenses initially incurred to create the words and texts and to obtain the relevant approval from authorities for the product.
45. An estimate calculated the value to trial of the Australian income lost over a number of relevant years as well as a value of the anticipated income lost in the US market, which was reduced by a probability factor of expansion of 50/50, thereby halving the calculation of lost income in the US market.
46. To these figures interest was added and set up costs in the United States were deducted and the figure was arrived at.⁵⁵
47. His Honour referred to the cross-examination of the expert and relevantly said:
- "He was then asked to ... to assume two identical products, and was again asked how the wording in the directions for use resulted in the complete loss of market over time for MJA. His response was: Certainly to come to the point that I have come to, it must be assumed that the copyright issues combined with other effects. If the words only are the issue, then I think I must acknowledge that perhaps the impact of those words, per se, does not necessarily lead to the loss of the market of MJA."*⁵⁶
48. In addition his Honour referred to a question which involved the loss of sales in the US and how that could be attributed to the act of copyright infringement of copying directions on the back of a packet of a product sold in Australia. The expert had to agree that there was no connection.
49. As the loss could not, on the expert evidence, be attributed to the active infringement of the directions for use, which was the basis upon which copyright infringement was found, his Honour concluded that MJA had not proved that it had suffered any damages as a result of the infringement of its copyright.

⁵⁴ 43 IPR 287 at 319

⁵⁵ 43 IPR 287 at 319-320

⁵⁶ 43 IPR 287 at 320

Pleading the ownership issue

50. On an aside point, it is important to plead the proper title to the copyright claimed. In *MJA* his Honour found that the case pleaded was that MJA created the directions on its product. His Honour also noted that it had not been established that those directions were not MJA's original work but rather the work of the inventor and co-applicant.
51. In *MJA* it did not subsequently make a difference, because the finding was that the directions were the inventor's original work and that he assigned his copyright in them to MJA. His Honour indicated that if it were necessary he would allow MJA to amend its statement of claim to plead the assignment directly.
52. Further, Sundberg J said that if he had not inferred that the inventor created the directions that were assigned he would have found that they were *MJA*'s because of his finding that the inventor created the product directions while he was employed by *MJA*.⁵⁷

Innocent infringement

53. Unlike the patents legislation, which removes a right to financial relief in the case of innocent infringement, the plaintiff is limited to an account of profits in respect of the infringement and not to any damages. This states:

"115(3) Where, in an action for infringement of copyright, it is established that an infringement was committed but it is also established that, at the time of the infringement, the defendant was not aware, and had no reasonable grounds for suspecting, that the act constituting the infringement was an infringement of the copyright, the plaintiff is not entitled under this section to any damages against the defendant in respect of the infringement, but is entitled to an account of profits in respect of the infringement whether any other relief is granted under this section or not."

54. It has been said that the Court is entitled to take into account "all the surrounding circumstances as it may do when a common law right of property is infringed."⁵⁸ In that case it was also said that the measure of damages recoverable was not the profit which the architect would make if employed as architect in the infringing building:

*"Copyright is not the sickle which reaps an architect's profits"*⁵⁹.

55. It has been said that the defence in s 115(3) of the *Copyright Act* has not afforded the defendant much assistance in practice⁶⁰, possibly because mistakes about the law of copyright have not come within the ambit of the section.⁶¹

⁵⁷ 43 IPR 287 at 316

⁵⁸ *Meikle v Maufe* [1941] 3 All ER 144 per Uthwatt J at 153

⁵⁹ [1941] 3 All ER 144 at 154 [10]; See Lahore "*Copyright and Designs*" at [36,220]

⁶⁰ Lahore "*Copyright and Designs*" [36,245] referring to *Kalamazoo (Aust) Pty Ltd v Compact Business Systems Pty Ltd* (1985) 5 IPR 213 at 243 (SC (Qld)); *Polygram Pty Ltd v Golden Additions Pty Ltd* (1994) 30 IPR 183 at 188-9 (Fed C of A)

⁶¹ *Pollock v J C Williamson Ltd* [1923] VLR 225; *Kalamazoo (Aust) Pty Ltd v Compact Business Systems Pty Ltd* (1985) 5 IPR 213 at 243-4 per Thomas J; Lahore "*Copyright and Designs*" at [36,245]

Additional damages

56. The Court is given power under s 115(4) of the *Copyright Act* to award such additional damages it considers appropriate, where it has found an infringement of copyright has occurred under s 115 of the *Copyright Act*.

“(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.”*⁶²

57. In the case of *Sullivan v FNH Investments Pty Ltd (t/as Palm Bay Hideaway)*⁶³ the appellant (FNH) contracted with the second respondent (XYZ), for XYZ to provide the professional photographic services of the first respondent, Mr Sullivan (the respondents jointly Sullivan). FNH operated a holiday resort in the Whitsunday Islands (the resort), and contracted with Sullivan to take photographs of the resort for use in a promotional brochure.

58. The contract provided that FNH could have a licence to use the photographs for a period of 2 years and that the licence was to be dependent upon the full payment of the contract

⁶² The Designs Act 2003 provides that the court may award much additional damages as it considers appropriate having regard to the flagrancy of the breach, “and all other relevant matters.”: s 75 (3)

⁶³ [2003] FCA 323; (2003) 57 IPR 63.

price. FNH paid a deposit and Sullivan took the photographs and supplied them to FNH in accordance with the contract.

59. Relevantly, Sullivan had supplied 61 photographs to FNH under cover of a letter stating that a usage licence would be granted when the balance of the price was paid and saying:

*“As you probably already know, any use of the material prior to the issuing of the licence, constitutes a breach of copyright.”*⁶⁴

60. FNH however refused to pay the balance on the grounds that the photographs were of an inferior quality. It was found by the primary Judge that after correspondence between the solicitors representing the parties over the issues and the commencement of proceedings in the matter, a brochure was issued by FNH utilizing some of the photographs Sullivan had taken.

61. FNH had argued that the matter was a contractual matter, with copyright being but one issue in dispute in the contract. It being a matter of contract, FNH submitted at the hearing, that it was established that exemplary damages were not awarded for breach of contract: *Gray v Motor Accident Commission* (1998) 196 CLR 1 at 6; *Addis v Gramophone Co Ltd* [1909] AC 488 at 492.

62. His Honour found that Sullivan was not in breach of the contract, but noted that even if Sullivan were in breach of contract, because of the alleged poor quality of the photos taken, that did not amount to a defence to a claim for damages for copyright infringement. The issue of whether the matter was an argument in contract, the terms of which involved delivery of copyright material for a price, or founded as a copyright claim was addressed by Jacobson J in these terms:

“Copyright infringement or breach of contract?”

In my view this question turns upon the terms of engagement in particular those set out in the fax of 3 November 2001.

It seems to me that the terms were clear. The licence to use the photos was granted only upon full payment. The opening words of the “Terms of Licence” say so in clear words. This is how Mrs Davidson understood them.

It is true that the terms included a clause that the balance of the fee was payable 30 days after invoice. The effect of this was that pending payment of the balance there was no licence. If FNH wished to use the photos before the expiration of the 30 days, it would have been necessary for it to make earlier payment.

Thus, FNH had no licence to use the photographs. It must follow that it did so in breach of copyright. Mr Sullivan is the owner of the copyright. This was admitted. FNH, not being the owner of the copyright and without the licence of the owner infringed Mr Sullivan’s copyright as provided in s 36 of the Act.

Mr Sullivan’s claim is for damages under s 115(2) of the Act and for additional damages under s 115(4). It is clear that he is entitled to damages for

⁶⁴ 57 IPR 63 at 68 [32]

infringement of his copyright. In addition, the company has a claim for damages for breach of contract but there cannot be double recovery of damages.”⁶⁵

63. On the issue of additional damages, his Honour found that FNH’s breaches were flagrant:

“FNH distributed the brochure with full knowledge of the first applicant’s claim for copyright in the photographs. Indeed, the evidence establishes that FNH knew at the time when it commenced to circulate the brochure that it did not have the right to use the photographs.

*Not only did FNH ignore Mr Sullivan’s personal protests but it continued to circulate the brochure after it received a letter from the applicants’ solicitors drawing attention to the breach of copyright. The letter threatened a claim for “the maximum damages available for the infringement” of copyright. Moreover, there was evidence of FNH’s disregard of the applicants’ claim after the commencement of these proceedings. Even then, FNH continued to circulate the brochures containing the applicants’ photographs.”*⁶⁶

64. His Honour then addressed the contract/copyright distinction in these terms:

*“The question which then arises is whether it was in substance a flagrant breach of contract which carries no exemplary damages or flagrant infringement of copyright for which I have power to award additional damages under s 115(4) of the Act.”*⁶⁷

65. On appeal⁶⁸ their Honours considered that the appeal raised a very narrow issue, being that the primary Judge did not pay sufficient regard to the common law principles that exemplary damages were, at best, only awarded in rare cases involving a breach of contract: *Harris v Digital Pulse Pty Ltd* (2003) 56 NSWLR 298 at [28] per Spigelman CJ and Heydon JA at [294]

66. The Full Court identified the following difficulties with such a submission:

- the primary Judge understood that additional damages were awarded on principles which corresponded to those which governed awards of aggravated and exemplary damages at common law;
- the effect of the submission was to say that additional damages could never be awarded under s 115(4) if the owner of the copyright and the infringing party were contracting parties.

67. The Full Court said that the *Copyright Act* did not impose such a limitation, nor was it implied.

68. Their Honours said that additional damages were not awarded for any breach by FNH of its contract but for the unlawful use of its copyright:

⁶⁵57 IPR 63 at 72-73 [80] – [84]

⁶⁶57 IPR 63 at 65 [7]

⁶⁷ 57 IPR 63 at 65

⁶⁸ *FNH Investments Pty Ltd v Sullivan And Another* 59 IPR 121 (Whitlam, Moore And Kiefel JJ)

“...the submission of FNH is that it involves an imperfect analogy. Even accepting, for present purposes, that a party who has breached a contract cannot be ordered to pay exemplary damages for the breach, that is not the situation arising in this case. The additional damages were not awarded for any breach by FNH of its contract with the service company or Mr Sullivan. That contract was for the provision of photographs to FNH which, if complied with (by the payment of the full fee for the provision of those photographs), gave rise to a licence agreement in FNH’s favour. That licence agreement never materialised. Thus the unlawful use of the photographs did not constitute a breach of contract but rather was, and was no more than, a violation of the statutory rights of Mr Sullivan.”⁶⁹

69. Their Honours considered FNH’s conduct to be flagrant saying:

“During the hearing of the appeal it was suggested, at one point, by counsel for FNH that the infringement was not a flagrant one. We disagree. FNH used photographs created by Mr Sullivan in a marketing campaign in circumstances where it was refusing to pay Mr Sullivan because the photographs he had created were not of the quality contemplated in the contract. The paradox is obvious. FNH used the photographs without notice to Mr Sullivan. FNH used the photographs, and infringed the copyright, over a considerable period (having been put on notice at an early stage by Mr Sullivan that there was infringement of his copyright) on a basis which it now says involved, on its part, necessity.”⁷⁰

70. The appeal was dismissed with costs.⁷¹

Additional damages where no compensatory damages awarded?

71. The comments of Lockhart J in *Polygram Pty Ltd v Golden Editions Pty Ltd*⁷² have been referred to in response to this question.⁷³ His Honour considered that it was not essential to obtain an award under s 115(4) that an award be made under s 115(2). It could, for example, accompany the granting of an injunction. His Honour observed at p 460:

“In my view, the word “additional”, in conjunction with the word “damages” in subs (4), is descriptive of the kind of damages that may be awarded, namely, additional in the sense of aggravated or exemplary damages which may contain a punitive component.

Therefore, although I recognise some attraction in counsel’s argument, I do not think it is sound. The owner of a copyright may bring an action for infringement of copyright: s 115(1). The Court may grant various forms of relief including those mentioned in subs (2), namely, an injunction and either damages or an account of profits. The relief mentioned in subs (2) is by way of inclusion and is

⁶⁹ 59 IPR 121 at 127 - 128

⁷⁰ Ibid

⁷¹ See also in relation to additional damages *Sony Entertainment (Australia) Limited & Ors v Smith & Ors* 64 IPR 18; *Microsoft Corporation & Ors v Ezy Loans Pty Ltd & Anor* 63 IPR 54.

⁷² (1997) 38 IPR 451

⁷³ 43 IPR 275 at 283; Lahore “Copyright and Designs” at 36,805

not exhaustive of the Court's powers. The Court may also grant declaratory relief."

Split trials

72. It is not uncommon in intellectual property cases for advisers to recommend that the issues of liability and quantum be heard separately. Theoretically, narrowing the issues means less work, less expenses and a shorter trial. Some might consider the Court's order to be a routine formality. Not so, in one patent case.⁷⁴

Background

73. Liberty commenced action against its former employee (Scott) in relation to alleged breaches of confidence and contraventions of the *Trade Practices Act 1974*, arising from Scott's employment with a competitor of Liberty (Bluestone). It was alleged that Scott had signed three agreements, each of which contained provisions concerning the protection of confidential information.

The proceeding

74. Liberty had sought and obtained in the Federal Court, interlocutory injunctive relief and an 'Anton Piller' order which Scott unsuccessfully tried to set aside. Liberty made application pursuant to O 29 r2 of the Federal Court Rules, that the issues of liability and *quantum be tried separately*.

75. The rule relevantly provides:

"The Court may make orders for –

- (a) *the decision of any question separately from any other question, whether before, at or after any trial or further trial in the proceedings*

..."

Liberty

76. Liberty made submissions in favour of the order, which I summarise in the following terms:
- Liberty noted it was more usually ordered where the order was sought by consent (*Rhone-Poulenc Agrochimie SA v UIM Chemical Services Pty Ltd* (1985) 10 FCR 567);
 - Matters should in the normal course be dealt with at one time (*Tallglen Pty Ltd v Pay TV Holdings Pty Ltd* (1996) 22 ACSR 130 at 141 – 142);
 - Some benefit had to be displayed to depart from this course;

⁷⁴ *Liberty Financial Pty Ltd v Scott* [2003] FCA 226; BC 200301072 (Weinberg J, 21 March 2003)

- The benefit lay in:
 - A saving of costs and time by narrowing the issues;
 - A potential contribution to settlement of the litigation (*Reading Australia Pty Ltd v Australian Mutual Provident Society* [1999] FCA 718 at [8]–[9] per Branson J);
- It was commonly recognised that intellectual property cases were in a category of cases, which were justly and conveniently dealt with by an order separating the issues under O 29 r 2 of the Rules Reading at [9];
- Several examples of such orders in patent cases were given.

Scott and Bluestone

77. These parties acknowledged that such orders were not uncommon but that the issues of liability and damage were intertwined in this case. They submitted:
- It was acknowledged that in patent cases it was not unusual to order the separate hearing of issues, but that this was due to the clear demarcation of the issues of liability and damage;
 - Intellectual property cases were not in a category which required the application of a special rule in these circumstances;
 - An account of profits in patent cases was *sui generis*;
 - There was in this case an overlap of the issues of liability and damages similar to *Trade Practices Act* cases, thereby creating overlap of evidence going to issues of liability and issues going to damages;
 - The Court should commence with the proposition that it is appropriate for all issues in a proceeding to be disposed of at one time;
 - The High Court has said that this separation should not be made too readily: *Tepko Pty Ltd v Water Board* (2000) 206 CLR 1 at 55 per Kirby and Callinan JJ – single issue trials should only be undertaken when “their utility, economy and fairness to the parties was beyond question.”;
 - The onus was on the applicant to show its utility;
 - In this case there was no saving as witnesses would have to be called twice, which put greater burden on the Court both in terms of time and costs. The Court also was at some disadvantage in relation to findings of credit when dealing with the liability issue.

Decision

78. His Honour rejected the application. Having regard to the general public interest to dispose of matters at one time and the comments of their Honours Kirby and Callinan JJ in *Tepko*, his Honour was not convinced that that the separation of issues produced a just, quick and cheaper path. Further, his Honour found that there was no special rule applicable to patent cases which inherently lent them towards a split trial.