

Locutus

THE NEWSLETTER OF INTELLECTUAL PROPERTY LAW, STATUTORY DECEPTIVE
CONDUCT AND FRANCHISING LAW.

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Welcome to Locutus

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Locutus is a newsletter of current news, recent cases, and practice decisions. It is authored by Carmen Champion Barrister-at-Law.

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FRANCHISING

Hosanna Holdings Pty Limited and ors v Peter Henry Oey and ors [2007] NSWIRComm 218

These are proceedings brought under s 106 of the Industrial Relations Act 1996 and concerned an allegation that the franchisee had been induced to enter into the franchise agreement by a number of misrepresentations by the principal of the franchisor, including misrepresentation as to the turnover of other franchised stores.

It was held that the franchise agreement resulted in a person performing work in an industry and therefore fell within the ambit of section 106 of the Industrial Relations Act 1996. This was the case because the two directors and shareholders of the franchisee were also guarantors and had undertaken to carry on the franchised business as the 'principals' of the franchisee.

On the issue of compensation, the franchisee was successful in getting an order that the initial franchise fee be paid back and for compensation for the trading losses incurred. The court refused though to make an order compensating one of the principals for the time, trouble and effort expended by him in trying to make the business profitable.

The person who made the misrepresentations was held jointly and severally liable for the payment of all compensation: see *Brown v. Reztitis* [1970] HCA 56; (1970) 127 CLR 157

Fonny Januar Pty Limited and anor v Oey and ors [2007] NSWIRComm 217

Similar facts and orders to those in *Hosanna Holdings Pty Limited and ors v Peter Henry Oey and ors*.

Alpha Centauri Enterprises Pty Ltd v Mortgage House of Australia Pty Ltd [2009] NSWSC 333

Issues: whether the defendants had engaged in unconscionable conduct in breach of s 51AC, through engaging in misleading and deceptive conduct and failing to comply with disclosure requirements under the Franchising Code of Conduct. Whether the agreements entered into by the defendants and the plaintiffs were 'franchise agreements' under cl 4(1) of the Franchising Code of Conduct – whether the first plaintiff had voluntarily abandoned a franchise business or relationship under cl 23(c) of the Franchising Code of Conduct.

Whether the first plaintiff had proved any damage flowing from any misleading or deceptive, or unconscionable conduct on the part of the defendants. - Assessment of damages where the parties fail to provide raw material to which reference can be made to assess loss .

RESTRAINT OF TRADE

***Marlov Pty Ltd v Murat Col* [2009] NSWSC 501**

Court refused to enforce customer restraint for the following reason:

“ Having regard to the fact that the defendant was but one of six salespersons employed by the plaintiff, the fact that the defendant has undertaken not to solicit the plaintiff’s customers, for the period remaining of the covenant, the fact that the plaintiff has not demonstrated that the defendant has any special relationship with its customers, the short period of time in which the defendant had been employed by the plaintiff, the fact that the plaintiff has not demonstrated that the defendant has any special relationship with any of its recurring customers and the fact that the greater number of the plaintiff’s customers are not recurring customers, I find that the restraint is not valid. Clause 19.1(c) is a covenant against mere competition. It does not protect any legitimate interest of the plaintiff in its business connection or goodwill. It cannot be read down so as to be valid. It is, therefore, void against public policy and unenforceable.”

TRADE MARKS & PASSING OFF & CONTRAVENTION OF THE TRADE PRACTICES ACT

***Mars Australia Pty Ltd v Sweet Rewards Pty Ltd* [2009] FCA 606**

Malteser/Malt Balls litigation: Get-Up case.

Question to be answered by court: whether either of the jars could suggest to an ordinary consumer of chocolate confectionary the existence of a connexion between the Malt Balls products and the Maltesers products.

Held:

“I am of the clear view that they could not. The orange jar does not remotely resemble the Maltesers packaging or use all of the essential features of the Maltesers get-up. I do not think that the ordinary consumer of chocolate confectioneries could possibly mistake the orange jar for Maltesers. In my opinion, this claim by Mars is wholly unmeritorious.

The situation with the Delfi red jar is more complex but the result is likewise clear. Because the principal component in the Maltesers get-up is the word “Maltesers”, it is highly unlikely that any ordinary consumer of chocolate confectionary could mistake something which is not called a Malteser for a Malteser. In that sense, Mars is a victim of its own success. The fact that the Delfi jars carry the name “Malt Balls” and use slightly different visual features is sufficiently clear to distinguish them from the Maltesers products. Cases may well be imagined – the present is not one – where two product names might be deceptively similar because of the names used and the manner in which those names are presented. For example, the use of the fictional word “Mallesters” amongst visual features that are otherwise identical to those of the Maltesers products would be likely to confuse some people, even some ordinary consumers of chocolate confectionary, into thinking they were buying Maltesers. Similarly, the use of the word “Maltballs” in the script and style denoted in the Maltesers

brand flag, and amongst visual features that are otherwise identical to those of the Maltesers products, might also be a source of confusion, And, of course, in that context, shape and form may have a part to play. But no ordinary person could think that the Malt Balls products in their current form misleadingly resemble the Maltesers products.

Quite apart from that consideration, there are three other obstacles to Mars' claim. First, the word "Delfi" with a skier motif next to it is emblazoned on the label in print half the size of the words "Malt Balls" themselves – a significant feature which finds no counterpart in the Maltesers get-up. Secondly, the red of the Maltesers products is quite different to the red of the red jar. Thirdly, whilst I accept that there is some limited similarity between the red jar and the Maltesers products in that both are festooned with floating chocolate balls, this condition is not sufficient to overcome the effect of the words "Malt Balls", the Delfi mark or the different red colouring.

I turn then to the third claim of misleading and deceptive conduct. Mars contends that by including on the jars a depiction of floating brown balls including some depicted in cross-section showing a yellow filling in conjunction with the words "Malt Balls", Sweet Rewards has again represented the equivalence of Malt Balls to Maltesers. The basis for this was said to be the reputation of the Maltesers get-up together with the familiarity of consumers with the characteristics of Maltesers. Mars submitted that for many members of the public the only malt ball they have ever encountered is the Malteser. Thus the depiction of a malt ball necessarily connotes that the malt ball in question is a Malteser.

This argument is unpersuasive. The most important aspect of the Maltesers get-up is not the floating brown balls with some cut through to reveal a yellow centre. Rather, as I have endeavoured to demonstrate, it is the word Maltesers and the associated brand flag. In any event, it is highly unlikely that the public would be misled by the floating balls since the words "Malt Balls" extinguish entirely whatever limited capacity for confusion the floating balls might have otherwise had. To know that one is eating a "Malt Ball" is to know that one is not eating a Malteser."

Trade Mark Infringement Claim: the court accepted that the intention was to use the Delfi brand as the trade mark and that the words "Malt Balls" were intended to be descriptive only. Therefore no deceptive similarity. Court also stated that if Malt Balls had been the trade mark that this mark is not deceptively similar to Maltesers.

Jemella Australia Pty Ltd v GHD Australia Direct Pty Ltd [2009] FCA 599

Trade Marks infringement. Issue: determining an account of profits in case of imperfect evidentiary foundation as to profits. Court to take pragmatic approach in assessing profits.

COPYRIGHT

Elwood Clothing Pty Ltd (ACN 079 393 696) v Cotton On Clothing Pty Ltd (ACN 052 130 462) [2009] FCA 633

Issue: quantum of damages. Full Court had found that the Respondent breached the Applicant's copyright rights in the "NewDeal" design (see *Elwood Clothing [2008] FCA 447*; (2008) 76 IPR 83 at [4]) and the "Vintage Sport Swing Tag" design drawing (see *Elwood Clothing [2008] FCA 447*; (2008) 76 IPR 83 at [5]):

The Applicant made an election for damages under s 115(2). The court noted that any award of damages should reflect the depreciation to the value of the Applicant's copyright as a chose in action that resulted from the Respondent's infringing conduct and that the damages are to compensate for the loss suffered as a result of the infringement, not to punish the respondent. As the measure of

damages is to be that sum which will put the Applicant in the same position as it would have been in if it had not suffered the wrong the Applicant bears the onus of proving depreciation or loss. If it fails to discharge that onus, nominal damages may be awarded.

Various methods of measuring damages for infringement of copyright have been described. Here the Applicant sought general damages for infringement of \$403,569.04 (based on a "lost profits method") or alternatively, \$376,083.12 (based on a "lost sales method"). In relation to the "lost profits method", two facts or matters were relied upon by the Applicant: (1) the Respondent sold 31,333 garments and (2) the Applicant sold the NewDeal garment at a wholesale profit of \$12.88 per unit.

Where the Applicant and the Respondent are in actual or potential competition, the appropriate measure of damage was described by Finkelstein J in *TS & B* [2007] FCA 151; 158 FCR 444 at [207] as follows:

Then lost profit is usually the best measure of damage. The plaintiff must show that he has lost sales to the defendant as a result of the infringement and quantify the loss suffered. This requires the court to explore the counterfactual hypothesis of the contracts the plaintiff would have obtained absent the infringement and the costs associated with them. Necessarily the process will involve a degree of speculation, but that is no bar to recovery. The claim is not for loss of revenue but for loss of profits. The profits to be calculated are the lost net profits. By net profits I mean revenue less all costs including variable and indirect costs, but not including income tax. Care must be taken to ensure that costs savings are brought to account. If a plaintiff sells less of his products he will have less costs and that should be treated as a gain to be offset against the lost revenue which forms the basis of the computation of lost profits. The plaintiff is also entitled to recover indirect losses (such as damage to goodwill) as long as the cause is the infringement, the loss is foreseeable and is not unduly speculative. It will often be impossible to be precise in the calculation of lost profit. If needs be, the calculation can be rough and ready, with the benefit of any doubt favouring the plaintiff.

The Applicant also sought general damages in the sum of \$200,000 on the basis that the sales of the Respondent's garments affected "the reputation of the NewDeal design, its "exclusivity" in the market place and the "Elwood" brand per se". There is no dispute that, subject to issues of causation and foreseeability, any secondary loss, including damage to reputation, caused by the infringement is recoverable. Court found that it was reasonably foreseeable that infringement of the Applicant's copyright would cause a loss of reputation to the Applicant in terms of brand-name recognition. On the issue of quantification the court said: "*The starting point must be the reputation, and the harm it has suffered. Using the number of infringing products to determine the quantum of damage to reputation reverses the process. Nevertheless, as I mentioned earlier, on the balance it is likely that some damage to reputation was suffered. After all, as they say, success breeds success: see Prior v Sheldon (2000) 48 IPR 301 at [87]. While the precise quantification of the Applicant's lost goodwill is necessarily speculative for the reasons identified above, I would award it an additional sum of \$10,000 in this regard. That amount represents the best assessment I can make in the circumstances: Review Australia Pty Ltd v New Cover Group Pty Ltd (2008) 79 IPR 236 at [46].*

The Applicant also sought damages under Section 115(4) of the Act. The court said: *First, there is no need ... to consider if an award of additional damages can be made under s 115(4) if no damages are awarded under s 115(2) because I have awarded ... damages under s 115(2) (Polygram Pty Ltd v Golden Editions Pty Ltd (No 2) 38 IPR 451 at 459-461 per Lockhart J; MJA Scientifics [International Pty Ltd v S C Johnson and Son Pty Ltd (1998) 43 IPR 275] at 283-284 per Sundberg J). Second, it is not necessary that there be a proportionate relationship between the additional damages awarded under subs (4) and the damages awarded under subs (2): Flags 2000 Pty Ltd v Smith [2003] FCA 1067; (2003) 59 IPR 191 at 198 per Goldberg J. An award of additional damages under subs (4) is not dependent upon the adequacy or inadequacy of an award of damages*

under subs (2). Third, the matters in subs (4)(b)(i)-(iv) inclusive are not preconditions to an award of additional damages. In other words, and using the flagrancy of the infringement as an example, the court must have regard to the flagrancy of the infringement in determining whether to award additional damages, but is not the case that additional damages can be awarded only if the breach involves a particular degree of flagrancy. Fourth, ... there is a distinction between conduct of a defendant after an infringement (or after being informed that he has allegedly infringed the plaintiff's copyright) and relevant to the substantive allegations against him on the one hand, and the defendant's conduct of his defence to an action for an infringement of copyright in relation to procedural matters on the other. The former matter is within the terms of s 115(4)(b)(ib) of the [Copyright] Act, whereas ... the latter matter is a matter to be taken into account in determining the appropriate order as to costs. ... Fifth, an award under s 115(4) of the [Copyright] Act can encompass damages which at common law would be aggravated damages and exemplary damages: Bailey 53 FCR at 113-114.

The court held:

"A number of facts and matters in the present case which support an award of additional damages under s 115(4) of the Act.

First, the Respondent's infringement (as found by the Full Court) was not innocent. It was flagrant. The Respondent had direct access to the Applicant's work – it purchased the Applicant's garment. The Respondent's employees were then told to make a garment / swing tag that was "the same but different". Significantly, these facts were not disclosed by the Respondent in any of its affidavits prior to trial but were exposed during cross examination.

Secondly, on 31 July 2007, the Applicant put the Respondent on notice of the Applicant's copyright rights. Then, despite being on notice of the alleged infringing act, the Respondent continued to manufacture and sell its infringing garments until all of those garments were sold.

Thirdly, there is a need to deter similar infringements of copyright. The Respondent, a large clothing manufacturer and retailer, knew that the design would be a "winner". Its method of "designing" garments was to employ "shoppers" who travelled the world buying garments which they then "copied". If the Applicant's copyright was infringed, then there is a public interest in deterring that method of "designing".

Having regard to the matters I have identified, I consider that an award of additional damages is appropriate. In the circumstances, I find that the sum of \$150,000 is appropriate.

REGISTERED DESIGNS

Technicon Industries Pty Ltd v Caroma Industries Ltd [2009] FCAFC 76

Issue: whether fraudulent imitation of registered design and whether absence of scalloping feature from impugned item meant that it is not an imitation of registered design. Whether evidence sufficient to establish copyright

Caroma is the registered owner of Design Number 116692. The Design is registered in respect of a lavatory pan. Caroma asserted that a model of a lavatory pan, which forms part of a toilet suite imported into and distributed and sold in Australia by Technicon, infringes Caroma's monopoly in the Design..

Only question before primary judge was whether the Technicon Pan is an obvious imitation or a fraudulent imitation of the Design. The primary judge found that the Technicon Pan is a fraudulent imitation of the Design.

The contention of Technicon on the appeal was that the striking difference between the Technicon Pan and the Design is the absence of the scalloping feature from the Technicon Pan. Technicon stressed that none of the prior art contained the scalloping feature. Technicon argued that the

scalloping feature is a shape in the Design that immediately attracts the eye and is a striking feature of the Design that visibly and deliberately intrudes into, and contrasts with, the roundness of the bowl and the humped shroud. *Accordingly it argued that significant weight needed to be given to the introduction of the scalloping feature in the Design and its omission from the Technicon Pan.*

Held: *“Apart from the scalloping feature, it is difficult to discern any difference between the design of the Technicon Pan and the Design without close and careful inspection. The overall first impression, created upon inspecting the Technicon Pan and comparing it with the Design, is that they are the same. The only real distinguishing feature is the scalloping. However, while the scalloping may fairly be described as pattern or ornamentation, which is absent from the Technicon Pan, the features of shape and configuration of the Design and the Technicon Pan, as judged by the eye, are substantially the same. Contrary to Technicon’s submissions, that conclusion does not impermissibly disregard the scalloping feature. It merely recognises that the Technicon Pan is substantially the same as the Design despite the absence of the scalloping feature.*

33 The same fundamental or basic design to be seen in the Design is reproduced in the Technicon Pan. The Technicon Pan possesses the same features that distinguish the Design from the prior art. The Technicon Pan contains the same curvilinear form and arrangement of bowl and shroud. The Technicon pan is a copy of the Design with differences. However, while the differences are both apparent and may not be so slight as to be insubstantial, the inference can be drawn that they have been made merely to disguise the copying”.

PATENTS

Dura-Post (Aust) Pty Ltd v Delnorth Pty Ltd [2009] FCAFC 81

Issue: proper approach to the construction of ss 18(1A) and 7(4) of the Patents Act 1990 (Cth). Whether "invention", as used in s 7(4), refers to "advance in the art" as identified by reference to common general knowledge.

And finally...

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