

IP @ Ashurst

December 2014



From the Editors

Welcome to the December 2014 edition of *IP @ Ashurst*.

As we go to press, the High Court has handed down its decision in the long-running coffee battle between Cantarella Bros and Modena concerning the trade marks CINQUE STELLE and ORO.

In this edition we also report on two decisions of the Full Federal Court concerning patents, namely; *Research Affiliates* concerning the patentability of computer implemented inventions and *Jewels 4 Pools* concerning patent validity and infringement. Also in patents, we report on the *Garford* decision in which the Federal Court allowed the amendment of patent specification to rectify clerical errors and obvious mistakes.

In copyright, we report on two cases (*Leica Geosystems* and *Vertical Leisure*) in which awards of additional damages were made for copyright infringement. We also report on the *Allen & Unwin* decision in which the Court declined to make summary judgment in copyright infringement proceedings concerning the publication of a photograph.

In marketing and advertising, we report on the ACCC's action against Dateline in relation to claims made about its "Keratin Complex" hair straightening product. We also report on the next instalment of the *Seafolly v Madden* proceedings, in which Seafolly was ordered to pay damages for misleading conduct. In addition, this edition covers the recent decisions concerning penalties awarded against Reebok, Breast Check and Safe Breast Imaging for misleading and deceptive conduct. In addition, we cover the infringement notice issued to Compare the Market and the court-enforceable undertakings provided by Maggie Beer in relation to misleading origin and credence claims about her company's gourmet food products.

In trade marks, we report on the *Mastronardi* decision in which the ZIMA trade mark was found to be adapted to distinguish tomatoes, the *King Par* decision concerning the purported abandonment of the ORLIMAR trade mark and the *One Mode* decision concerning the application to register the 5SOS trade mark for the Australian band 5 Seconds of Summer.

We hope you enjoy this edition!

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STOP PRESS

Cantarella’s coffee trade marks upheld by the High Court – descriptive foreign language words held to be registrable as trade marks in Australia

Cantarella Bros Pty Limited v Modena Trading Pty Limited [2014] HCA 48

On 2 December 2014, the High Court handed down its decision in the long-running coffee battle between Cantarella Bros and Modena concerning the trade marks CINQUE STELLE and ORO. A majority of the High Court (Chief Justices French, Justices Hayne, Crennan and Kiefel with Justice Gageler dissenting) held that Cantarella’s trade marks ORO (meaning “GOLD” in Italian) and CINQUE STELLE (meaning “FIVE STARS” in Italian) are inherently adapted to distinguish Cantarella’s goods (namely coffee).

This case first arose when Cantarella sued Modena for infringement of its ORO and CINQUE STELLE trade marks. Cantarella was successful at first instance. However, on appeal the Full Court of the Federal Court of Australia found that the trade marks ORO and CINQUE STELLE were descriptive and should be removed from the Trade Marks Register. For further information about the first instance and Full Court appeal decisions see the [June 2013](#) and [December 2013](#) editions of *IP @ Ashurst*.

Please see our full report on the High Court’s decision in the March 2015 edition of *IP @ Ashurst*.

The dawn of a new era for computer-implemented business methods in Australia

Research Affiliates LLC v Commissioner of Patents [2014]
FCAFC 150

What you need to know

- On 10 November 2014, the Full Federal Court published an important decision concerning the patentability of computer implemented inventions, *Research Affiliates LLC v Commissioner of Patents* [2014] FCAFC 150.
- The Court found that it is necessary to consider the substance of the claimed invention when deciding whether it is a patentable invention which creates an “artificial state of affairs” as required by the manner of manufacture test in section 18 of the *Patents Act 1990* (Cth).
- The Court found that the claimed invention in this case is in substance merely an unpatentable abstract idea or scheme because there is no suggestion in the specification that any part of the claimed inventive step lies in the computer implementation. Rather, it appears from the specification that any inventive step arises in the creation of an index as information and as a scheme.
- The Court made it clear that claims that do relate to claimed technological advances (including use of software or hardware in new ways) will often be patentable. It cited with approval decisions in which claims with integral technological components were found to be patentable, discussed further below.
- Research Affiliates has 28 days from the date of the judgment to seek special leave to appeal the decision of the Full Court to the High Court of Australia.

The invention

The invention considered in this decision concerns the field of investment portfolio management. The Full Federal Court considered one aspect of the invention, being a computer-implemented method for generating an index. The method comprises a sequence of steps, including accessing data concerning a number of assets, identifying assets to be included in the index, weighting each of the identified assets and finally generating the index. The process of identifying the assets and assigning a weighting to each one, utilises objective measures of scale other than share price, market capitalisation, or any combination thereof.

Principal issue before the Court

The issue before the Court was whether or not an otherwise unpatentable business commercial or financial scheme can be transformed into a patentable invention, *merely* by implementing the method or scheme on a computer.

The issue turned on the application of section 18 of the *Patents Act 1990* (Cth), which provides that an invention is a patentable invention if, so far as claimed in any claim, it is a manner of manufacture within the meaning of section 6 of the *Statute of Monopolies 1623*. To meet this requirement, an invention must produce a result which constitutes an “artificially created state of affairs” of utility in practical affairs and thus of economic significance.

At first instance, Justice Emmett (whose decision was affirmed by the Full Federal Court) pointed out that section 18 provides the threshold test for patentability. His Honour said that “the real question is whether the claimed invention is a proper subject of letters patent, according to the principles that have been developed” and not whether it is a “manufacture”. Thus, it is not necessary to “limit one’s thinking by reference to the idea of making tangible goods by hand or by machine”.

The parties agreed in this case that the invention was of economic significance, such that the issue was whether the invention meets the other aspects of this test. That is, it was necessary to consider whether the invention resulted in an artificially created state of affairs in the sense of a “concrete, tangible, physical or observable effect”.

Decision

Justices Bennett, Kenny and Nicholas held that in determining whether an invention is a manner of manufacture, the court will analyse the claimed invention as a matter of substance, which required a greater level of analysis than simply identifying the integers that are part of the claim.

In this case, the claimed invention did not claim any “improvement in what might broadly be called ‘computer technology’”. It did not affect the operation of a computer or relate to use of a computer outside the normal use.

In the circumstances, the Court found that it was apparent from the specification as a whole that “any inventive step arises in the creation of the index as information and as

a scheme” and that there was no suggestion that any part of the claimed inventive step lies in the computer implementation. In reaching this conclusion, the Court considered the specification as a whole.

In these circumstances, the Court held that the claims are not to a patentable invention.

It is important to note that this decision was based upon a finding about the substance of the invention rather than any technical finding as to effect of the particular method within the computer. The Court accepted that, as submitted by Research Affiliates, “claim 1, being to a computer-implemented method of constructing data, involved physical manifestations of that method in the computer at each step along the way, which steps transformed data and culminated in the construction of the final data comprising the index. That final set of transformed data comprises a physical effect in the computer”.

The Court made it clear that a broad range of computer-related inventions are patentable. This was illustrated by its approval of a number of key cases. These included:

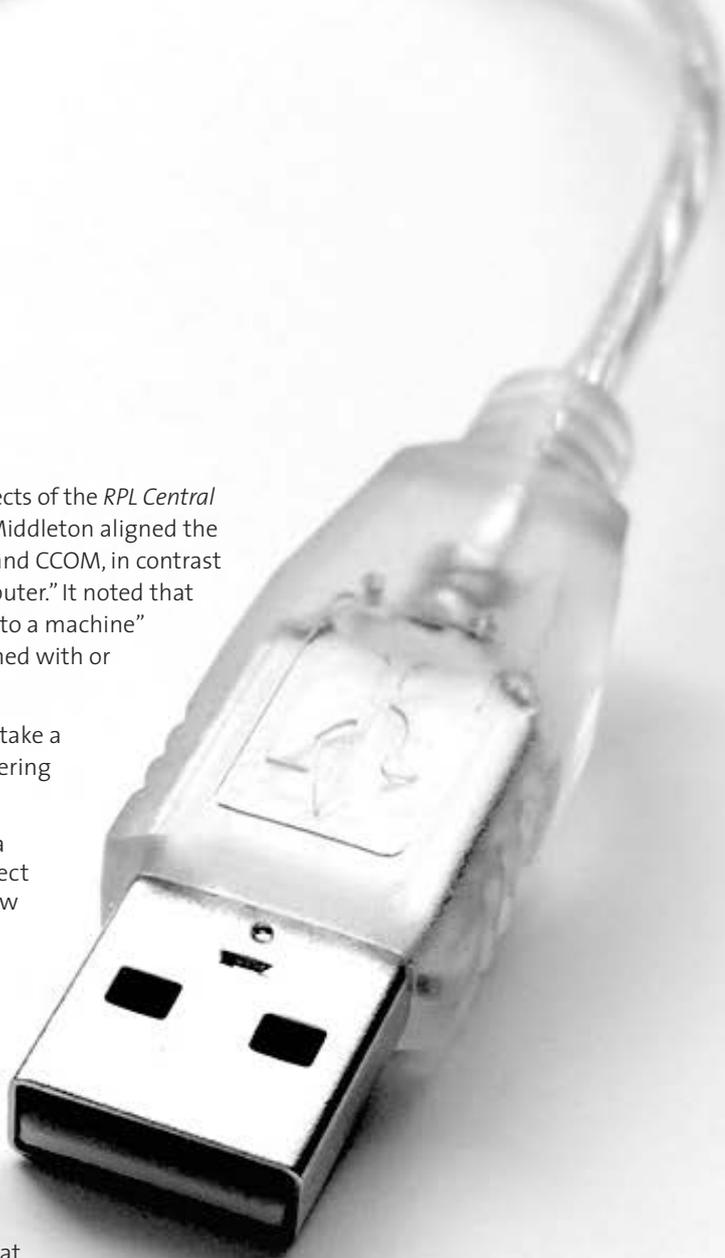
- the application and use of a formula by a computer to produce, eg, an improved curve image (considered in *IBM v Commissioner v Patents*); and
- the application of a particular method of characterising key strokes in a computer to enable the keyboard to select appropriate Chinese characters for word processing in that language (considered in *CCOM v Jiejing*).

The Court also cited with apparent approval the recent decision of Justice Middleton in *RPL Central v Commissioner of Patents* [2013] FCA 871 (as reported in the [March 2014 edition of IP @ Ashurst](#)). In that case, Justice Middleton held that a computer-implemented business scheme invention was patentable where, as further explained below, some technological details were included in the claims. The invention considered in *RPL Central* is an automated process of generating a “question and answer” format of questions from a remotely-located server via the internet, based on extensive criteria, for the purposes of assessing the competencies or qualifications of individuals based on recognised standards. The invention automatically generates a user interface which performs the administrative work that would otherwise have been necessary to gather from prospective candidates, based on their particular competencies.

The Full Federal Court emphasised the technical aspects of the *RPL Central* patent in its judgment and concluded that Justice Middleton aligned the invention with a *new use* of a computer as in *IBM2* and *CCOM*, in contrast to “*mere implementation* of the invention by a computer.” It noted that Justice Middleton found that the method was “*tied to a machine*” rather than being a method which could be performed with or without the use of a computer.

The Full Court also made it clear that courts should take a flexible approach to new technologies when considering patentability. It said that:

“The approach to be taken to deciding whether a claimed method or product is properly the subject to letters patent must be flexible and must allow for new technologies presently unknown. The principles should be applied irrespective of the area of human endeavour and invention under consideration. However that is not to say that any and every claimed method of process is properly the subject of a patent. Examples of exceptions have been identified, such as abstract ideas and mere schemes. There is no formula to be mechanically applied. It is a question of understanding what has been the work of, the output of, and the result of, human ingenuity, and to apply the principles that have been developed and explained so well in *NRDC*.”



It appears however that the key difference between the cases in which computer implemented inventions have been found to be patentable and the *Research Affiliates* case is the extent to which the specification and claims identify and claim inventiveness in relation to technological aspects of the invention.

Thus, when drafting Australian patents for computer-implemented inventions, it is important to include relevant technological details and to include in the body of the specification an explanation of the claimed inventiveness of relevant technological features.

It is also important to bear in mind that the cases above relate only to the threshold patentability test. Once that test is passed, further challenges to validity can be made on bases such as novelty and inventive step. In *Research Affiliates*, the Full Court indicated that all integers, including computer implementation, will be taken into account in relation to those issues.

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The flagrancy trophy – discouraging departures with documents

Leica Geosystems Pty Ltd & Ors v Koudstaal (No. 3) [2014] FCA 1129

What you need to know

- Merely proving a former employee copied or retained documents will not of itself substantiate a damages claim for copyright infringement, even where it might be inferred the documents were useful to a new employer.
- Where copyright infringement is flagrant this can provide the basis for a substantial award of additional damages.
- Here, nominal damages of \$1 were awarded for breach of confidence and copyright infringement, as well as additional damages of \$50,000 due to the flagrancy of the copyright infringement.
- Without evidence of loss caused by employees misappropriating confidential information and copyright materials, additional damages under the Copyright Act may be an important financial deterrent to such conduct.

Background

In the days before the respondent, Mr Koudstaal, left his job as a software engineer at Leica Geosystems Pty Ltd (Leica), he copied hundreds of thousands of files onto an external hard drive. The copied materials included computer software source code, documents relating to test procedures, user manuals as well as customer site specific access details.

The copying was discovered by a workmate and friend of Mr Koudstaal who saw folders and files displayed on Mr Koudstaal's television as he scrolled through the contents of an external hard drive. This led to Leica obtaining an executing search and seizure orders against Mr Koudstaal and his new employer Automated Positioning Systems Pty Ltd (APS).

APS is a competitor of Leica in providing software for GPS-controlled mining equipment. APS settled with Leica, leaving Leica's action only against Mr Koudstaal.

At trial, Mr Koudstaal (who was unrepresented) admitted that he had copied the files. However, he denied that he ever provided them to APS, or used them for the benefit of himself or APS.

Despite later regretting the copying as a "stupid mistake", Mr Koudstaal rationalised it on the bases that:

- he was worried that after leaving Leica he may be criticised for poor work, so he took copies that he could review and use to defend any such criticism; and
- he considered the copies a kind of "trophy" – a copy of his work to take with him and remember with pride; and
- he contended he had made the copies so he could "check" work he had done, including an ineffective "bug fix" he had worked on, which "nagged" him after his employment ended.

Additional damages for copyright infringement may provide the only basis for a significant financial award where actual losses are difficult to prove.



The Court's decision

Justice Collier found that Mr Koudstaal had:

- infringed Leica's copyright;
- breached his equitable duty of confidence to Leica;
- breached his employment contract with Leica, at least in respect of falsely claiming on his departure he had not retained any of Leica's materials, and various other obligations relating to fidelity to his employer;
- breached his statutory duties under section 183(1) of the *Corporations Act 2001* (Cth) by improperly using Leica's information.

Given Mr Koudstaal's admissions, these findings were not particularly surprising.

Damages

On the question of damages, Leica's case was more difficult. Despite an extensive list of ways in which the documents taken *might* have benefitted Mr Koudstaal or APS, no actual disclosure to APS of any documents or harm to Leica was shown. The Court assessed damages for all of the claims at a nominal \$1.

Leica sought \$250,000 in additional damages for flagrant copyright infringement. Justice Collier found that amount to be excessive, and instead awarded additional damages of \$50,000, as well as costs.

In finding that Mr Koudstaal's copyright infringement was flagrant, Justice Collier emphasised that Mr Koudstaal knew the materials he copied were the core of Leica's business, that the copying was deliberate and over a sustained time, and that he falsely stated he had none of Leica's materials in his possession upon termination of his employment. Justice Collier also noted that deterrence was also a factor, having regard to Mr Koudstaal's evidence that downloading large volumes of an employer's software before leaving was "commonplace".

Key lesson

This case demonstrates that in an action against a former employee for misuse of documents and information, copyright infringement is a potent weapon. In particular, where circumstances show the infringement was flagrant, additional damages for copyright infringement may provide the only basis for a significant financial award where actual losses (or profits by the respondent) are difficult to prove.

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ZIMA – inherently adapted to distinguish tomatoes

Mastronardi Produce Ltd v Registrar of Trade Marks [2014] FCA 1021

What you need to know

- The Federal Court overturned the decision of the Registrar of Trade Marks and found that the trade mark ZIMA was inherently adapted to distinguish and should be registered.
- This case reinforces the general rule that an invented word is likely to be inherently distinctive and registrable as a trade mark (assuming that there are no other objections).
- This case also serves to highlight that Australian examiners' objections to trade mark applications are not always correct and it can be worthwhile challenging them, especially when an examiner's approach is out of step with the approach taken by examiners in other countries with similar legislation.



Background

Mastronardi Produce Ltd (Mastronardi) is a Canadian company that produces and sells fruit and vegetables, including tomatoes. In early 2010, Mastronardi coined the name “ZIMA” to be applied to a range of golden grape tomatoes. The word ZIMA had no meaning in the English language and had never been used in relation to tomatoes in Australia or elsewhere. The ZIMA trade mark achieved registration in Canada, the United State of America, New Zealand and Japan.

On 25 July 2011, Mastronardi filed an application in Australia to register the trade mark ZIMA in class 31 for “tomatoes”.

An examiner of the Australian Trade Marks Office rejected the application under:

- section 41(6) of the *Trade Marks Act 1995* (Cth) (Act) on the basis that ZIMA is the name of a particular variety of tomato and “other traders should be able to use this name to describe their similar goods”; thus, the trade mark had no inherent adaptation to distinguish Mastronardi’s tomatoes from those of other traders; and
- section 43 of the Act on the basis that, due to the connotation of the word ZIMA (ie, being associated by consumers with a particular variety of tomato), use of ZIMA in relation to other tomato varieties would be likely to deceive or cause confusion.

Mastronardi filed submissions and evidence of use in support of the application, but the examiner maintained the grounds for rejection in two further reports, after which Mastronardi requested a hearing.

Trade Marks Office Hearing

Mastronardi’s application was dismissed at the hearing.

The Hearing Officer maintained the section 41(6) objection, saying that the word ZIMA “appears to be a reference to a single kind of tomato plant and its fruit” and, as such, lacked any inherent adaptation to distinguish Mastronardi’s tomatoes as it “appears to be an appropriate description of the goods in respect of which it is to be used”. Mastronardi’s evidence of use did not overcome the objection as it did not convince the Hearing Officer that ZIMA was functioning as a trade mark.

The section 43 objection was also maintained because the secondary meaning or “connotation” of ZIMA was of a particular variety of golden grape tomato, which meant that the buying public was likely to be deceived or confused if ZIMA were applied to other tomatoes not of this variety.

Federal Court appeal

Mastronardi successfully appealed to the Federal Court. Mastronardi argued that ZIMA was not the name of a new variety of tomato as the Registrar had contended, and gave evidence that its golden grape tomatoes sold under the ZIMA trade mark came from about six different varieties.

The Court held that ZIMA is inherently adapted to distinguish Mastronardi’s tomatoes from the tomatoes of other traders and ordered that the trade mark be registered under section 41(3) of the Act.

Justice Gordon accepted that ZIMA is an invented word with no relevant meaning in respect of tomatoes and rejected the Registrar’s argument that ZIMA was being used by Mastronardi as the name of a new variety of tomato.

Her Honour also observed (citing *Burger King Corp v Registrar of Trade Marks* (1973) 128 CLR 417) that “actual use of the trade mark does not assist in the resolution of the current matter as the inherent nature of the trade mark itself cannot be changed by use or otherwise”. In other words, if a trade mark is inherently distinctive, it will not lose that inherent distinctiveness as a result of subsequent use.

The Registrar of Trade Marks was ordered to pay Mastronardi’s costs of the appeal and the Trade Marks Office Hearing.

Comment

Justice Gordon did not refer to the section 43 ground of rejection in this decision. Presumably this was because, having found that ZIMA was an inherently distinctive trade mark and not a word which described a particular variety of tomato, it followed that ZIMA contained no connotation that would lead to consumers being confused or deceived.

It is also unusual that the Court ordered the trade mark to be registered rather than “accepted”, thereby overriding the standard procedure which requires accepted applications to be advertised for opposition purposes.

Her Honour’s observation about an inherently distinctive mark not losing its distinctiveness as a result of subsequent use is interesting, as it is possible for a trade mark registration to be cancelled on the basis that the trade mark has become generic – for example, where it has become known in the relevant trade as the name of the goods or services.

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Jewels 4 Pools in hot water over surface finish

Fei Yu trading as Jewels 4 Pools v Beadcrete Pty Ltd [2014] FCAFC 117

Fei Yu trading as Jewels 4 Pools v Beadcrete Pty Ltd (No 2) [2014] FCAFC 128

What you need to know

- On 10 September 2014, Justices Dowsett, Middleton and Robertson dismissed an appeal against a decision of Justice Jagot upholding the validity of a patent owned by Beadcrete Pty Ltd (Beadcrete) and finding that it was infringed by Fei Yu trading as Jewels 4 Pools (Jewels 4 Pools).
- The patent claims a type of decorative surface finish containing glass beads, which is used to coat swimming pools and other structures.
- The judgment serves as a reminder that when construing patent claims:
 - it is for the court to interpret words that bear no particular technical meaning to a person skilled in the art; and
 - integers must be interpreted by reference to other integers and with reference to the specification of the patent as a whole.

Background

Beadcrete develops surface finish products for pathways, swimming pools and other structures. The company owns Australian Patent No. 733668 (Patent), which claims a surface finish comprising glass beads.

In 2011, Beadcrete commenced proceedings against a supplier of similar products, Jewels 4 Pools, alleging infringement of the Patent. Jewels 4 Pools cross-claimed that the Patent was invalid.

In our [June 2013 edition of IP @ Ashurst](#), we reported on the judgment of Justice Jagot in *Beadcrete Pty Ltd v Fei Yu trading as Jewels 4 Pools (No 3)* [2013] FCA 187. Justice Jagot upheld the validity of the Patent and found that it was infringed by Jewels 4 Pools.

On 10 September 2014, Justices Dowsett, Middleton and Robertson dismissed an appeal by Jewels 4 Pools against the decision of Justice Jagot. On 30 September 2014, Jewels 4 Pools were ordered to pay Beadcrete's costs of the appeal.

The Patent

The appeal proceedings were primarily concerned with claim 1 of the Patent. At first instance, the case was conducted upon the basis that claim 1 contained integers, including:

- a substrate material;
- a reflective material on the surface of the substrate comprising glass beads;
- a cementitious material providing a matrix for the glass beads;
- a specific average glass bead particle size; and
- a glass bead particle size distribution, whereby the major component of glass beads is within a relatively large incremental size range (where the weight of beads is greater) and a minor component is within a smaller incremental size range.

Claim construction

Jewels 4 Pools argued that claim 1 was unintelligible because it does not contain a specified midpoint from which to differentiate the glass beads falling within the relatively large incremental size range from those of the smaller incremental size range. The term “midpoint” is used in other claims of the Patent in connection with the distinction drawn between larger and smaller glass beads.

Beadcrete contended that the Jewels 4 Pools approach gave no meaning to the phrase “average particle size” in the preceding integer of claim 1. Beadcrete argued that the “average particle size” was the criterion for distinguishing between relatively large and relatively small glass beads.

At first instance, Justice Jagot held that “average particle size” was not a technical term and referred to the weighted average particle size based on the weight distribution of different sizes of particles. On appeal, the Full Court agreed with this approach, stating that in circumstances where the primary judge concludes that there are no technical or scientific terms, it is for the Court to construe the claim. Experts may give evidence as to the meaning which those skilled in the art would give to technical or scientific terms.

The Full Court rejected Jewels 4 Pools’ argument that the integer of claim 1 relating to “a particle size distribution” must be construed in isolation from other integers in the claim. The Full Court stated:

The use of integers is very much a forensic technique. It provides a structure within which the Court and the parties address the factual issues. However, the meaning of each claim must be determined by reference to the words, the way in which they are arranged, and in the context of the specification as a whole.

Infringement

At first instance, Justice Jagot held that Jewels 4 Pools had infringed the Patent by supplying green and ice-blue glass bead surface finishes, which when tested fell within the claimed average particle size and distribution. Beadcrete relied on the contributory infringement provision in the *Patents Act 1990* (Cth) (Act).

For the purposes of section 117(2)(b) of the Act, at first instance Justice Jagot found that the product was not a staple commercial product. On appeal, the Full Court was inclined to the view that the product was a staple commercial product, but did not form a concluded view.

The Full Court rejected Jewels 4 Pools’ argument that statements such as “hundreds of colours and combinations” on its website did not instruct an infringing use for the purposes of section 117(2)(c) of the Act. The Court stated that although it may be possible to describe statements as “trivial marketing exhortations”, such statements can also be instructions.

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Court declines to make summary judgment in copyright infringement proceedings

Francis v Allen & Unwin Pty Limited & Ors [2014] FCA 1027

What you need to know

- This case serves as a reminder that courts should not exercise their power to order summary judgment lightly.
- Parties should put on the best evidence available to them to support an application for summary judgment in order to discharge the requisite burden of proof.

Background

The applicant claimed that a photograph she took of herself was reproduced in a book without her permission and without attribution, thereby infringing her copyright and her moral rights in the photograph.

The book in question was about the notorious shootout between rival bkie gangs in 1984, known as the “Milperra massacre”, in which a young woman called Leanne Walters was killed in the crossfire. The photograph that was published was purportedly of Ms Walters, and the source of the photograph was attributed to the NSW Police Department (although they later wrote to the applicant denying that they had supplied the photograph).

The respondents sought summary judgment on the basis that the claim had no reasonable prospect of success under section 31A(2) of the *Federal Court of Australia Act 1976* (Cth).

Copyright and moral rights

Copyright subsists in a photograph as an “artistic work”, and is owned by the author of the work (section 35 of the *Copyright Act 1968* (Cth)) (Copyright Act). Copyright is infringed where, amongst other things, a work is reproduced without the licence of the owner under section 36 of the Copyright Act.

Section 189 of the Copyright Act also provides that authors have “moral rights”, which include a right of attribution of authorship, a right not to have authorship falsely attributed and a right of integrity of authorship.

Findings

The respondents adduced evidence via a solicitor’s affidavit that Ms Walters’ father had confirmed that the photograph was of his daughter, and contended that there was no real question of fact as to the identity of the woman in the photograph. The applicant had made outlandish allegations

against the publisher on her website and in previous court proceedings, which the respondents submitted showed she was a vindictive person and that her evidence should be given little weight.

However, Justice Katzmann emphasised that the Court’s power to order summary judgment is draconian, and must be applied with caution. His Honour relied on the decision of the High Court in *Spencer v Commonwealth of Australia* (2010) 241 CLR 118, in which it was held that where there are factual issues capable of being disputed, summary dismissal should not be awarded simply because the Court has formed the view that the applicant is unlikely to succeed on the factual issue.

His Honour found that there was a factual issue capable of being disputed in the case. Although the applicant’s allegation that she was the subject of the photograph was improbable, the evidence was not enough to convince him that it was fanciful, frivolous or vexatious sufficient for him to exercise his power to summarily dismiss the proceeding. The applicant had adduced a statement from her ex-husband stating that, in his opinion, the photograph was of the applicant and adduced other photographs of Ms Walters that had been published in newspaper articles from which the judge was able to identify different facial features from the photograph in the book.

The respondents did not put on direct evidence from Ms Walters’ father as to his belief that the photograph was of his daughter, but instead relied on hearsay evidence from the respondents’ solicitor. Further, there was no evidence from the respondents of who took the photograph, which was the real question at issue in the proceeding.

His Honour was therefore of the view that the case should be allowed to proceed to trial. He said, “Questions of credibility are quintessentially unsuitable for summary resolution.”

Conclusion

The application for summary judgment was dismissed with costs.

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Misleading EasyTone shoe claims cost Reebok \$350,000

Australian Competition and Consumer Commission v Reebok Australia Pty Ltd WAD483/2013

As reported in the [June 2014 edition of IP @ Ashurst](#), the Australian Competition and Consumer Commission (ACCC) commenced proceedings against Reebok Australia Pty Limited (Reebok) in December 2013, claiming that Reebok's promotion of the REEBOK EasyTone shoes contravened the *Australian Consumer Law* (ACL).

In particular, the ACCC claimed that between September 2011 and February 2013, Reebok's advertisements made false, misleading or deceptive representations about the EasyTone shoes on shoes boxes, swing tags, information cards and on in-store material. For example, Reebok claimed that if a person walked in a pair of the EasyTone shoes they would increase the strength and muscle tone of their calves, thighs and buttocks more than if they walked in a traditional walking shoe. The ACCC claimed that Reebok did not have reasonable grounds for making the claims.

In October 2014, the Federal Court found Reebok's conduct to be misleading and deceptive in contravention of the ACL. The Federal Court, by consent, ordered Reebok to pay a penalty of \$350,000. Reebok was also ordered to provide a refund of \$35 per pair to consumers who had purchased a pair of EasyTone shoes during the relevant period. In addition, Reebok was ordered to publish corrective notices, establish a trade practices compliance program and to pay the ACCC's costs of \$45,000.

In September 2011, Reebok's United States company reached a settlement with the US Federal Trade Commission whereby Reebok agreed to pay US\$25 million in refunds to customers who had purchased Reebok EasyTone (please see our article on the US proceedings in the [December 2011 edition of IP @ Blake Dawson](#)).

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Formaldehyde and keratin – keeping hair claims on the straight and narrow

ACCC v Dateline Imports Pty Ltd & Taylor [2014] FCA 791

ACCC v Dateline Imports Pty Ltd (No 2) [2014] FCA 1222

What you need to know

- The ACCC failed in its most serious allegations that, contrary to the Respondent's marketing claims, its hair straightening product contained toxic formaldehyde. This failure highlighted the difficulties of characterising chemical ingredients, as understood by consumers and by scientists, and the rigorous testing that may be required to prove such allegations.
- Despite that, the ACCC succeeded in respect of the Respondent's more prosaic representations, such as the percentage of a key ingredient contained in the product, and an unreasonably based opinion regarding the future conduct of a foreign regulator which had banned the product in question.
- Dateline has been ordered to pay a pecuniary penalty of \$85,000, and the ACCC has been ordered to pay one third of Dateline's costs of the proceeding.



Where public safety may be at risk, traders should expect close scrutiny of their products and their advertising claims.

Background

The ACCC sued Dateline Imports Pty Ltd (Dateline) alleging that Dateline had made false representations and engaged in a range of misleading and deceptive conduct in connection with a hair straightening product called “Keratin Complex” (Product).

Decision

The ACCC alleged that Dateline misrepresented, among other things, that:

1. the Product contained no formaldehyde;
2. the Product was safe and complied with relevant health regulations;
3. a ban on the Product in Ireland would be overturned; and
4. the Product comprised at least 35% “natural keratin”.

Decision

The ACCC succeeded only on the third and fourth claims above. The more numerous, and potentially more serious, allegations regarding the presence of formaldehyde, a toxic chemical, and the safety of the Product were not made out.

Justice Rangiah of the Federal Court considered detailed expert evidence about the meaning of “formaldehyde”. Dateline contended that formaldehyde is a gas which, when placed in an aqueous solution, is transformed to a different compound, methylene glycol, with unreacted formaldehyde of no more than 0.04% remaining (Aqueous Solution). Justice Rangiah found that the relevant class of consumers, however, would understand “formaldehyde” to include the Aqueous Solution, not just formaldehyde as a gas or as free, unreacted formaldehyde in the solution.

Adding methanol as a stabiliser to the Aqueous Solution creates “formalin”. Dateline used formalin to create timonacic acid, which itself was then used as an ingredient in the Product. Timonacic acid can be reconverted to methylene glycol and unreacted formaldehyde.

The ACCC relied on three laboratory tests to argue that the Product contained formaldehyde in the broader sense accepted by the Court. However, this argument failed because the Court rejected the laboratory test results. First, it found that the test methodologies for two tests were invalid, as substances used to conduct the tests reacted with one or more of the Product’s ingredients to create methylene glycol and formaldehyde, and thus falsely positive results. The third test methodology was acceptable, but the samples tested were beyond the two year “use by” period allowed by the manufacturer, invalidating the results.

Interestingly, Justice Rangiah found that consumers would expect a product containing organic and chemical components to deteriorate over time and would not expect the Product to straighten hair after its “use by” date, or meet any of the other product claims made

in the Respondent’s advertising. On this basis, the representations were temporally limited to being during the “use by” period. This finding was surprising, as one might think that consumers’ expectations regarding the absence of toxic ingredients – particularly in a product expressly claiming to contain no toxic ingredients – would not be limited to that period, even allowing for some deterioration of the Product’s effectiveness over time.

In the absence of acceptable test results showing the presence of formaldehyde, the ACCC’s contentions about that and the safety of the product were unsuccessful. Had valid samples been tested using the third method, the result of this case may have been different.

The ACCC did satisfy the Court that Dateline had no reasonable basis to assert, as it had done in a letter to customers, that the Irish health authorities “would” retract their ban on the Product. Justice Rangiah found this was an opinion as to future matters and that Dateline’s opinion had no reasonable basis because it went beyond the information provided to it by its supplier, which indicated that work was being done which might, it hoped, overcome the ban in Ireland.

Additionally, the ACCC succeeded in showing that Dateline’s advertising claimed that the Product “infuses over 35% Natural Keratin” was false. The Court found that the Product contained less than 3% natural keratin, which was a component of another ingredient which made up approximately 40% of the Product.

Key lesson

This case is a reminder that claims about ingredients, including their presence and their proportions in an end product, should be considered very carefully. This is particularly relevant where potentially harmful precursor ingredients are transformed to create a product’s main ingredients, and especially if reconversion or deterioration of the ingredients is possible. Where public safety may be at risk, traders should expect close scrutiny of their products and their advertising claims.

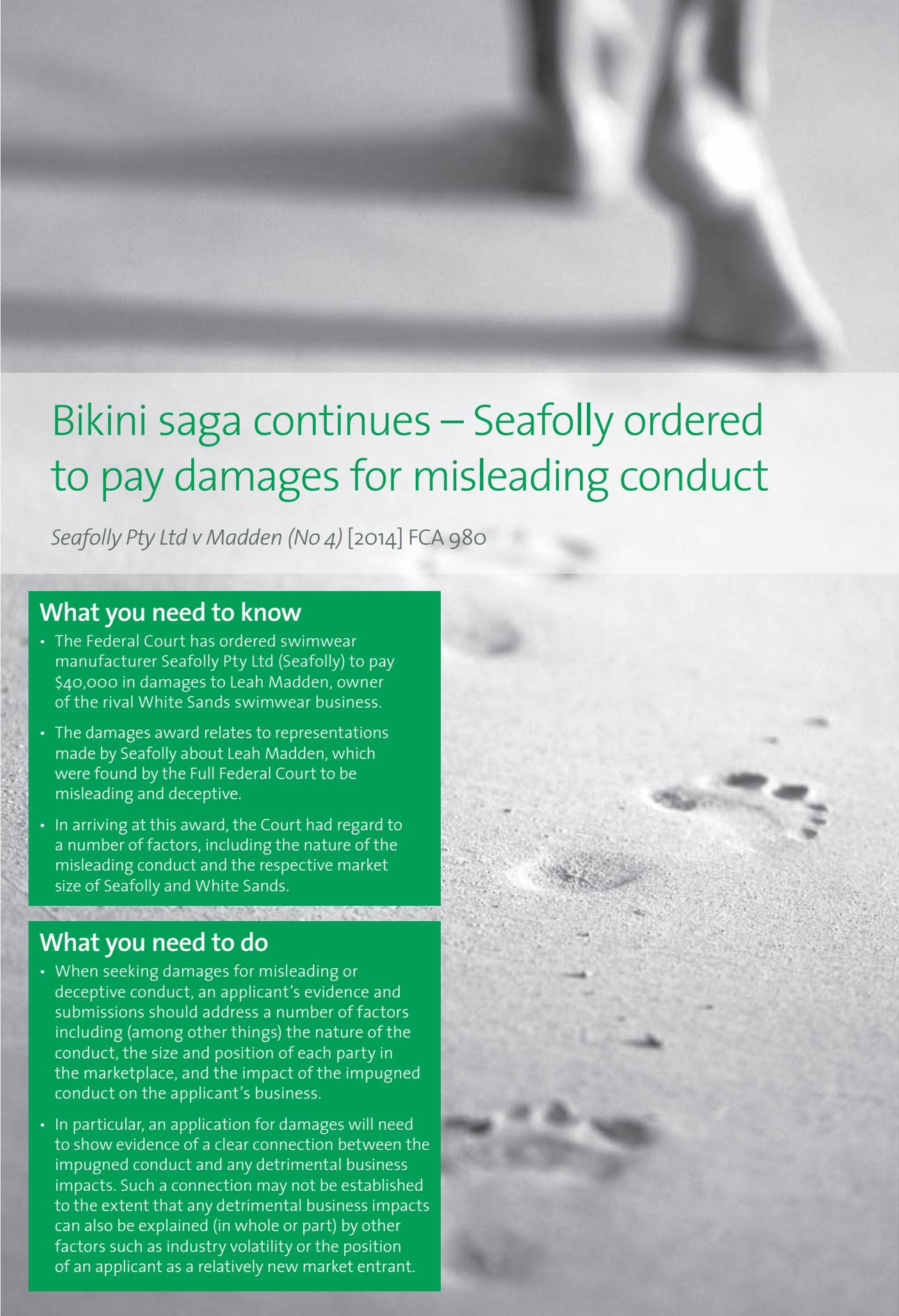
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STOP PRESS

ACCC appeal

On 10 December 2014, the ACCC filed a notice of appeal in relation to Justice Rangiah’s decision. In particular, the ACCC is appealing the trial Judge’s decision dismissing its allegations that Dateline made false or misleading representations that its products did not contain toxic or dangerous chemicals, did not contain formaldehyde, were safe for their recommended use, and complied with all health and safety regulations in the world. Watch this space!



Bikini saga continues – Seafolly ordered to pay damages for misleading conduct

Seafolly Pty Ltd v Madden (No 4) [2014] FCA 980

What you need to know

- The Federal Court has ordered swimwear manufacturer Seafolly Pty Ltd (Seafolly) to pay \$40,000 in damages to Leah Madden, owner of the rival White Sands swimwear business.
- The damages award relates to representations made by Seafolly about Leah Madden, which were found by the Full Federal Court to be misleading and deceptive.
- In arriving at this award, the Court had regard to a number of factors, including the nature of the misleading conduct and the respective market size of Seafolly and White Sands.

What you need to do

- When seeking damages for misleading or deceptive conduct, an applicant's evidence and submissions should address a number of factors including (among other things) the nature of the conduct, the size and position of each party in the marketplace, and the impact of the impugned conduct on the applicant's business.
- In particular, an application for damages will need to show evidence of a clear connection between the impugned conduct and any detrimental business impacts. Such a connection may not be established to the extent that any detrimental business impacts can also be explained (in whole or part) by other factors such as industry volatility or the position of an applicant as a relatively new market entrant.

Background

In the [June 2014 edition of IP @ Ashurst](#), we reported on the case of *Madden v Seafolly Pty Ltd* [2014] FCAFC 30, in which (among other things) Seafolly was found to have made certain misleading statements about Ms Madden in Seafolly's press releases.

The dispute related to accusations made by Ms Madden that Seafolly had copied some of her swimwear designs. In response to these allegations, Seafolly issued press releases which included representations that Ms Madden's allegations had been made maliciously to injure Seafolly.

The Full Court found that Ms Madden did not act maliciously towards Seafolly, and on this basis Ms Madden's claim of misleading or deceptive conduct by Seafolly (in contravention of section 52 of the now-superseded *Trade Practices Act 1974* (Cth) (TPA)) was upheld. The matter was remitted to Justice Tracey to determine the appropriate sum of damages to be awarded to Ms Madden.

Relevant considerations

Ms Madden submitted that she should be entitled to \$120,000 in damages, while Seafolly argued that Ms Madden was not entitled to any damages, or alternatively that any sum awarded should be nominal.

In a hearing "on the papers", Justice Tracey held that Ms Madden should be awarded \$40,000 in damages. In making this finding, His Honour had regard to a number of factors.

Serious nature of allegation

Although Seafolly's allegations of malicious conduct by Ms Madden comprised only a single sentence in otherwise lengthy press releases, Justice Tracey held that they were no less serious than if they had stood alone or appeared in a shorter press release.

Extent of publication and "grapevine effect"

Justice Tracey noted that the publishers to whom the press releases were directed were presumably chosen by Seafolly with the expectation that the press releases would be widely disseminated.

Ms Madden argued that, owing to the "grapevine effect", there was a risk that the allegations would resurface in the future, and that she should be placed in a position to minimise further reputational damage by being able to point to a significant damages award.

However, Justice Tracey rejected this argument, on the basis that the damages in question were for a breach of section 52 of the TPA and not for defamation (where considerations of a "grapevine effect" would be more relevant).

Relative market size and positioning of Seafolly and White Sands

Ms Madden provided a limited amount of evidence to support her assertion that Seafolly's allegations of malicious conduct had caused damage to her business.

While Justice Tracey noted that this evidence provided some support to Ms Madden's claim of lost business due to Seafolly's assertions, his Honour held that there was no sufficient connection between the publication of Seafolly's misleading allegations, and the failure of certain stockists to renew their orders of White Sands swimwear (which was likely influenced by the nature of the industry and the status of White Sands as a relative newcomer to the market).

Hurt and offence suffered by Ms Madden

Justice Tracey was satisfied, on the evidence, that the hurt and offence suffered by Ms Madden was due at least partly to Seafolly's misleading allegations.

Ms Madden submitted that Seafolly had failed to apologise to her, or to retract the allegation that Ms Madden acted maliciously. Justice Tracey declined to take this into consideration when assessing damages, noting that while this may be a relevant factor in defamation cases, it does not affect the assessment of statutory damages for misrepresentation.

Conclusion

On the basis of these considerations, Justice Tracey awarded Ms Madden the sum of \$40,000 in damages.

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Green light for ObjectiVision in preliminary discovery battle against Visionsearch

ObjectiVision Pty Ltd v Visionsearch Pty Ltd [2014] FCA 1087

What you need to know

- The Federal Court has granted an order for preliminary discovery sought by ObjectiVision Pty Ltd (ObjectiVision) against Visionsearch Pty Ltd (Visionsearch) and the University of Sydney (University), in relation to potential claims for copyright infringement and misuse of confidential information.

What you need to do

- Applicants seeking preliminary discovery orders under Federal Court Rule 7.23 should ensure they prepare and file sufficient evidence to satisfy the requirements of this rule. This includes evidence as to the applicant's reasonable, subjective belief that it may have a right to obtain relief in the court.
- Respondents to a preliminary discovery application should be careful not to file evidence on substantive aspects of the applicant's case which are more appropriately determined at trial.

Background

ObjectiVision is a developer of ophthalmic diagnostics devices. It made an application for preliminary discovery against Visionsearch and the University in relation to documents which it argued were relevant to:

- potential claims against Visionsearch and the University for copyright infringement and misuse of confidential information; and
- a potential claim against the University for breach of a licensing agreement between ObjectiVision and the University.

The potential copyright claim related to ObjectiVision's OPERA software underpinning its "AccuMap" product (used to test visual function and detect vision loss in patients with glaucoma). In particular, ObjectiVision sought to establish whether there may be a reasonable case that Visionsearch's rival TERRA software infringed copyright in the OPERA software. ObjectiVision also contended that it may be entitled to relief for misuse by Visionsearch of ObjectiVision's confidential information.

Justice Perry considered the application of Federal Court Rule (FCR) 7.23, which allows a prospective applicant to apply for a preliminary discovery order under certain circumstances.

General requirements of FCR 7.23(1)

His Honour noted that the policy underpinning FCR 7.23 is to enable prospective applicants to obtain further information to assess whether the cost and risk of litigation is worthwhile. Accordingly, His Honour affirmed the view that FCR 7.23 should be given the “fullest scope” its language will reasonably allow.

FCR 7.23(1)(a) – reasonable belief

Justice Perry considered whether, pursuant to FCR 7.23(1)(a), ObjectiVision had a reasonable belief that it may have the right to obtain relief in the Court. His Honour affirmed the principles that:

- the belief must be “reasonable”, and mere conjecture or assertion will not suffice;
- what is required is a subjective state of belief which is reasonable; and
- there is no need to prove a reasonable belief in the existence of every element of each potential cause of action, although uncertainty about a number of such elements may be sufficient to undermine the reasonableness of the belief.

Justice Perry was careful to note that in considering an application for preliminary discovery, a court should not embark on “a trial before an action”. His Honour was critical of the extensive evidence led by Visionsearch on substantive aspects which took issue with the ultimate merits of ObjectiVision’s case.

Justice Perry held that the evidence was sufficient to conclude that ObjectiVision had a reasonable belief in ownership of the copyright in the OPERA software. His Honour held that ObjectiVision’s belief that its copyright had been infringed was also reasonable, even though the circumstances leading to such belief were circumstantial. In this regard, His Honour noted that it was not incumbent upon ObjectiVision to establish a prima facie case.

FCR 7.23(1)(b) – reasonable inquiries

Justice Perry reaffirmed the principle that FCR 7.23(1)(b) is concerned with whether an applicant has “sufficient information” to decide whether to start proceedings. This requires a higher standard than simply ensuring whether an applicant has enough information for a “bare pleadable case”.

Justice Perry found on the evidence that ObjectiVision had indeed made reasonable inquiries. ObjectiVision was therefore found to have established that it did not have enough information to decide whether to start a proceeding for copyright infringement.

ObjectiVision was found to have met the requirements of FCR 7.23(1)(a) and (1)(b) with respect to the potential claims for both misuse of confidential information and breach of copyright. However, on the evidence, these requirements were **not** satisfied in relation to ObjectiVision’s potential claim against the University for breach of the relevant licensing agreement.

FCR 7.23(1)(c) – possession of documents by prospective respondent

His Honour affirmed the view that the extent of preliminary discovery ordered should be limited to no more than that which is necessary to overcome the insufficiency of the information possessed by the applicant, having made reasonable enquiries.

On this basis, his Honour considered the categories of documents sought by ObjectiVision in relation to the potential copyright and confidential information claims, and allowed these subject to some exclusions and limitations.

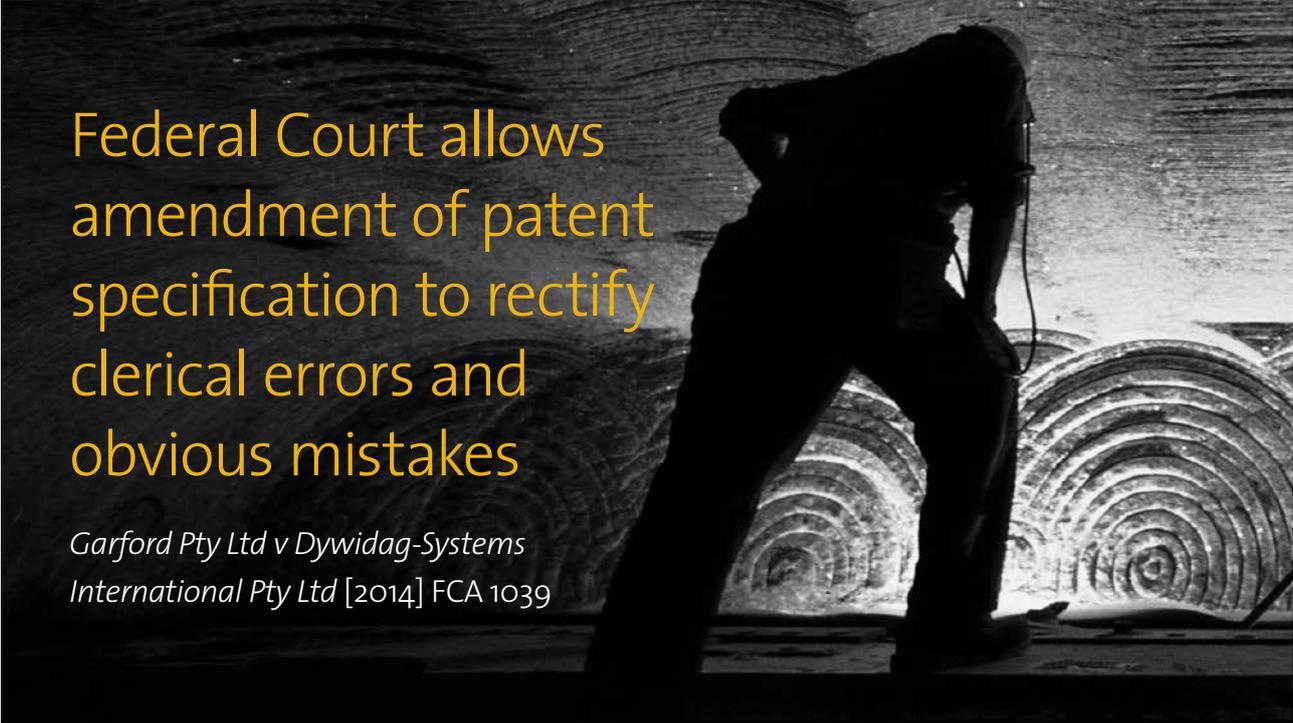
Court’s discretion under FCR 7.23(2)

FCR 7.23(2) gives the Court a discretion to make a preliminary discovery order. His Honour noted that this discretion includes the power to refuse to make an order for preliminary discovery, even where the requirements of FCR 7.23(1) have been met.

His Honour proceeded to make the orders sought by ObjectiVision in relation to its potential copyright and confidential information claims (subject to some exclusions and limitations), together with orders to protect the confidentiality of the material sought by ObjectiVision.

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Federal Court allows amendment of patent specification to rectify clerical errors and obvious mistakes

Garford Pty Ltd v Dywidag-Systems International Pty Ltd [2014] FCA 1039

What you need to know

- Amendments can be made to a patent request or complete specification while an appeal is on foot.
- Clerical errors or obvious mistakes in a patent request or complete specification can be amended by court order.
- A clerical error is one that is produced when someone intends to write something and by inadvertence either omits to write it or writes something different.
- An obvious mistake is one in which the existence of the mistake and the proper correction can both be appreciated.

Background

Dywidag-Systems International Pty Ltd (Dywidag) made a patent application for an apparatus and method for manufacturing rock bolts for securing the roof or wall of a mine, tunnel or other ground excavation. The application was opposed by Garford Pty Ltd (Garford).

A delegate of the Commissioner of Patents found that some of the claims were not fairly based but could be overcome by simple amendments, and allowed Dywidag 60 days to propose amendments.

Garford filed a notice of appeal, and Dywidag subsequently filed an interlocutory application seeking to amend the specification. This case relates to that amendment application.

Amendment application

In its amendment application, Dywidag relied on section 105(1A) of the *Patents Act 1990* (Cth) (Act) which states:

If an appeal is made to the Federal Court against a decision or direction of the Commissioner in relation to a patent application, the Federal Court may, on the application of the applicant for the patent, by order direct the amendment of the patent request or the complete specification in the manner specified in the order.

This subsection was introduced in 2012, to give the court power to consider and decide upon any amendments proposed by the patent applicant while the appeal is on foot rather than after the appeal has been decided.

The amendments sought in this hearing were directed to correcting certain errors or mistakes in the specification, so that the appeal (and concurrent hearing of the substantive amendment application) could then be conducted on the basis of a specification free from mistakes and errors. Garford did not oppose these amendments.

The problems sought to be fixed related to claim dependency (numbering) errors and a number of errors in wording.



Decision

In reaching his decision, Justice Yates first outlined the relevant statutory framework, which was as follows.

The court cannot direct an amendment under section 105 if that amendment is not allowable under section 102 of the Act, for example, on the basis that it would claim or disclose matter extending beyond that disclosed in certain documents.

However, section 102(3)(a) states that this prohibition does not apply to an amendment for the purposes of “correcting a clerical error or an obvious mistake made in, or in relation to, a complete specification”. Dywidag argued that the errors in this case constituted both “clerical errors” and “obvious mistakes” for the purposes of that section.

Justice Yates then discussed a number of cases dealing with the meaning of these terms.

In *R v Commissioner of Patents; Ex Parte Martin* (1953) 89 CLR 381 it was stated that:

A clerical error... occurs where a person either of his own volition or under the instructions of another intends to write something and by inadvertence either omits to write it or writes something different ...

Further, *Ex Parte Martin* also stated that:

... the characteristic of a clerical error is not that it is in itself trivial or unimportant, but that it arises in the mechanical process of writing or transcribing ...

In *General Tire & Rubber Company (Frost's) Patent* [1972] RPC 271 it was said that an “obvious mistake” would be one which:

... involves that the instructed public can, from an examination of the specification, appreciate the existence of the mistake and the proper answer by way of correction.

A distinction was drawn between an obvious mistake and a mistake that has been “obviously made”:

It is the mistake which must be obvious and not the fact that it has been made. This implies, to my mind, that both the fact of mistake and the correction necessary must be clear to the reader’s mind, and it is not enough if he merely appreciates the presence of a mistake... The wording of the section itself therefore... shows an intention in favour of the first construction rather than the second.

Further, for the purpose of correcting an obvious mistake:

...it does not matter that the claim may be enlarged by the amendment.

Justice Yates therefore concluded that even significant amendments are allowable if they are truly “clerical errors” or “obvious mistakes”.

Justice Yates also decided that there is no tension between section 105(4) and section 102(3). If the court is satisfied that the amendment sought is for the purpose of correcting a clerical error or an obvious mistake, it is not necessary to consider the criteria in section 102 by which an amendment is to be adjudged as “not allowable”.

Justice Yates held that the proposed amendments were for the purpose of correcting clerical errors or obvious mistakes, and that they fell into the exception under section 102(3). As such, these amendments were allowed.

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Abandoning a trade mark in the deep rough – does non-use result in a finding of abandonment?

King Par, LLC v Brosnan Golf Pty Ltd [2014] FCA 795

What you need to know

- While non-use of a mark may be indicative of abandonment, it will not necessarily be enough to support a finding of abandonment, as an intention to abandon the mark must exist.
- Equally, absent any intention not to abandon the trade mark, use of the mark may not necessarily prevent a finding of abandonment.
- In a proceeding seeking summary judgment, the Court must be satisfied that the respondent has no reasonable prospects of successfully defending at least the part of the proceedings which the application is sought in respect of.



Background

On 24 December 2010, Brosnan Golf Pty Ltd (Brosnan) applied to have the trade mark ORLIMAR registered in respect of golf clubs and golf equipment in classes 25 and 28 respectively. Bronson's ORLIMAR application was accepted on 22 August 2011.

While it was undisputed between the parties that King Par LLC's (King Par) predecessor company, Orlimar Golf Equipment Company LLC (Orlimar), was in fact the inventor of the ORLIMAR trade mark, Brosnan argued that despite obtaining the registrations many years before, King Par had failed to take any action to renew the registration of the ORLIMAR trade mark when it was due for renewal in 2008. In 2009, these registrations were removed from the Register. It was at this time that Brosnan took steps to have the ORLIMAR trade mark registered in its name.

In early 2013, King Par sought to have the ORLIMAR trade mark re-registered in its name. On 17 February 2013, King Par's ORLIMAR application was accepted (after King Par responded to an adverse examiner's response, citing Brosnan's registration). Unsurprisingly, Brosnan opposed this application, in reliance upon its prior registration for the same mark.

Cancellation action

King Par, sought an order under section 88 of the *Trade Marks Act 1995* (Cth) that the Register be rectified by cancelling the registration of Bronson's ORLIMAR trade mark on the basis that the respondent, Brosnan was not the owner of the mark.

King Par then brought an interlocutory application against Brosnan seeking an order that summary judgment be given against Brosnan on the basis that, having read the pleadings and affidavit materials, the Court ought to be satisfied that Brosnan had no reasonable prospect of successfully defending (at least) that part of the proceedings.

Summary judgment interlocutory application

On 30 July 2014, Justice Greenwood handed down his judgment in relation to the interlocutory proceedings (which had been brought by King Par under section 31A of the *Federal Court of Australia Act 1976* (Cth) and rule 26.01(1)(e) of the *Federal Court Rules 2011*).

In reaching a decision, Justice Greenwood reviewed the evidence to be relied upon by the parties at trial:

“not with a view to making any findings of fact about any question, but rather so as to form a view about the strengths and weaknesses of the applicant's case on the material and the strengths and weaknesses of the respondent's case as to be satisfied (or not) whether the respondent has no reasonable prospect of successfully defencing that part of the proceeding”.

Justice Greenwood accepted King Par's evidence that it had continued to use the ORLIMAR trade mark despite letting the earlier registration lapse. In fact, King Par's evidence suggested that the mark had been used by King Par and its predecessors from 1998 until 2013. Despite this evidence, Justice Greenwood did not accept that there was enough evidence so as to satisfy the test that Brosnan had no prospects of success.

Abandonment

Brosnan's primary argument was that they believed they were able to adopt the marks as they had not been used in Australia since 2000, and Australian consumers would not relate to or identify with the brand ORLIMAR. Abandonment however, is “not to be inferred merely from non-use, mere non-use of a trade mark is not enough to give rise to abandonment, there has to be an intention to abandon”. Justice Greenwood further emphasised that “abandonment is a question of fact, and inferences as to fact might be capable of being drawn from primary facts”.

King Par presented evidence that it had never intended to abandon the trade mark in Australia, and worldwide. However, Justice Greenwood recognised that the “question of intentional abandonment is a question of fact, which might be determined by references to primary facts or by inferences as to the fact in issue, open on findings of primary issue”, and stated that Brosnan ought not be denied the opportunity to test the facts in issue.

Referral to trial

In finding that Brosnan had some prospects of success of proving a claim of abandonment, Justice Greenwood made orders to the effect that the parties should resolve the issues in an expedited trial.

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Pole dancing can be a risky business – copyright in the X-Pole infringed

Vertical Leisure Ltd & Anor v Skyrunner Pty Ltd & Anor [2014] FCCA 2033

What you need to know

- By default judgment, the Federal Circuit Court awarded \$300,000 in additional damages, \$50,000 in compensatory damages for loss of reputation and \$44,800 in compensatory damages for lost profits for copyright infringement of Vertical Leisure's X-Pole pole dancing products.
- The very significant award of additional damages was due to the Skyrunner's flagrant conduct (including using a variety of selling platforms to avoid detection), concerns for consumer safety from the sale of inferior products and the defendant's continued infringing conduct even after being put on notice of Vertical Leisure's claim.
- This case also illustrates some of the difficulties in obtaining compensatory damages for lost profits where the respondent does not participate in the proceedings, but that this can lead to an increased award of additional damages.

What you need to do

- If you are faced with an uncooperative respondent who does not defend itself against your claim, it may be possible to recoup the shortfall in compensatory damages through additional damages.
- If you receive a cease and desist notice, consider whether to remove the allegedly infringing items from sale pending the resolution of the dispute to avoid an award of additional damages.

On 5 September 2014, the Federal Circuit Court granted an application by Vertical Leisure Ltd and Dance4Me Pty Ltd (Applicants) for default judgment against Skyrunner Pty Ltd and Mr Huirong Chen (Respondents). Judge Driver awarded the Applicants almost \$400,000 in damages for copyright infringement, largely as a result of the Respondents' failure to take part in the proceedings and their generally obstructive and flagrant conduct. The case is a salient reminder that the Court has the ability to make very significant awards of additional damages under section 115(4) of the *Copyright Act 1968* (Cth) (*Copyright Act*).

Background

The Applicants sell poles for pole dancing in Australia under the "X-Pole" brand and are market leaders in their industry both in Australia and internationally. The Respondents had been marketing and selling counterfeit dance poles since at least 2010, through a number of different website platforms, including eBay and gumtree.com.au, as well as on a wholesale basis. The Respondents' products included exact copies of the Applicants' instructional DVD for its X-Pole products, reproductions of images and artwork from genuine X-Pole documentation and were marketed under the X-Pole trade mark. Over the years, the Applicants had written a number of cease and desist letters to the Respondents and the Respondents had effectively responded by changing the platform through which they were selling the counterfeit products. The Respondents were continuing to advertise their dance poles using the Applicants' intellectual property when the Applicants prepared their statement of claim.

Default judgment and relief sought

The Applicants brought proceedings against the Respondents alleging that the Respondents had persistently and flagrantly sold inferior copies of their X-Pole products, damaging the Applicants' reputation, placing consumers at risk and infringing the Applicants' copyright and trade marks. The Respondents did not file any response to the Applicant's originating application and statement of claim and did not participate in the proceedings. The Applicants applied for, and obtained, default judgment.

The Applicants sought relief for trade mark infringement, copyright infringement, misleading and deceptive conduct in trade or commerce and passing off, but acknowledged that they could not receive double compensation – that is, if damages were awarded under the *Copyright Act*, they could not also be awarded for the same conduct under the *Trade Marks Act 1995* (Cth), the *Australian Consumer Law* or passing off. The Applicants agreed to only press for damages for copyright infringement, given that the copyright infringement allegations covered all of the Respondents' conduct.

The Applicants sought compensatory damages for lost profit and loss of reputation and additional damages under section 115(4) of the *Copyright Act*.

Compensatory damages for lost profit – \$44,800

The difficulty for the Applicants was that because the Respondents had not participated in the proceedings, there was no evidence before the Court of the precise number of infringing products that had been sold. Even subpoenaed information from the Australian Customs and Border Protection Service was too general to be able to identify the number of infringing poles that had been imported into the country.

Ordinarily, a plaintiff in an intellectual property infringement case may prove an entitlement to compensatory damages on the basis that it lost sales made by the defendant which would otherwise have been made by the plaintiff. In this instance, however, Judge Driver had to make an estimate based on the known means through which the Respondents were selling the dancing poles. Judge Driver settled on \$44,800 as an appropriate award of damages for lost profits, but noted that "this is a conservative figure when one has regard to the size of the pole market in Australia and the fact that the X-Pole is the number 1 branded pole".

Compensatory damages for loss of reputation – \$50,000

Judge Driver was satisfied that the damage to the Applicants' reputation was substantial. He noted that X-Pole was one of the most widely recognised brands in the industry and referred to affidavit evidence that the Respondents' inferior counterfeit poles being marketed and sold under the X-Pole brand were leading to customer confusion and dilution of the brand. Of particular concern was the fact that the Respondents had sold to both individuals and wholesalers and so the Applicants' reputation had been damaged at both retail and wholesale level. Judge Driver accepted that \$50,000 was appropriate for damage to reputation.

Additional damages – \$300,000

The main damages awarded in the case, however, were additional damages under section 115(4) of the *Copyright Act*. Judge Driver accepted the Applicants' submission that the Respondents' conduct warranted a significant award of \$300,000 in additional damages based on:

- the flagrancy of the Respondents' infringement, including featuring exact copies of the Applicants' X-Pole instructional DVD, reproductions of artworks and images from the Applicants' genuine X-Pole products and the X-Pole trade mark, and using a number of different platforms to sell their products to try to avoid detection;
- the need for deterrence of similar infringements, particularly given the safety issues with inferior products; and
- the fact that the Respondents continued their infringing conduct despite having been put on notice (several times) of the Applicants' rights.

The Court accepted the Applicants' arguments that there did not need to be proportionality between the additional damages and the compensatory damages awarded and that it is open to the Court to increase an award of additional damages on the basis that the Respondent's lack of participation in the proceedings meant that the compensatory damages likely underestimated the number of sales.

The high award of damages in this case was, at least in part, the result of the Respondents failing to defend the proceedings. The case is also a useful reminder, however, that even where it is difficult to make out a significant loss of profit, the Court may make a substantial award of additional damages.

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What you need to know

- The ACCC has obtained court enforceable undertakings from Maggie Beer Products Pty Ltd in relation to the labelling and representations made regarding four of its products.
- The ACCC is continuing to monitor and actively enforce breaches of the *Australian Consumer Law* in relation to false or misleading claims made by producers and retailers of food products, and is particularly concerned by false credence claims.

What you need to do

- Ensure that product labelling accurately reflects the product's content and provenance.
- Monitor any changes in production processes which may be described on your product's labelling to ensure that the labelling continues to accurately describes your product.
- Regularly review product labels and claims about product quality or origin to ensure that all claims are accurate and can be substantiated.
- Review and update product claims as business' operations change or grow. For example, where a business has grown from a local producer to having a national manufacturing base.

Not quite a Barossa tradition – Maggie Beer's labelling blues



Background

Celebrity chef Maggie Beer's gourmet food company, Maggie Beer Products Pty Ltd, has provided court-enforceable undertakings to the ACCC, after conceding that the labelling on some of its products and representations made regarding these products was likely to mislead consumers about the origin of these goods.

A Barossa Food Tradition?

The labels found in breach of the *Australian Consumer Law* (ACL) were for Maggie Beer branded ice cream, extra virgin olive oil and rosemary and verjuice biscuits. The main label on these products included Maggie Beer's name and pheasant logo, with the words "A Barossa Food Tradition" at the bottom of the label.

The ACCC alleged the overall impression of this label, in close proximity to the words "Made in Australia" or "Product of Australia" and "Maggie Beer Products: 2 Keith Street Tanunda South Australia 5352" would lead a reasonable consumer to believe that the products were manufactured in Tanunda, the Barossa Valley and/or South Australia. In fact, most of these products were made in Victoria, with the red wine vinegar made in Queensland.

Maggie Beer Products also gave undertakings regarding representations made at a local fair in Mitcham, South Australia, that these products were local products when in fact this was not the case. Similar representations were also made to Woolworths regarding a promotion in emails between 4 February 2013 and 20 May 2013.

Maggie Beer Products acknowledged that the product labelling and the representations were likely to have contravened sections 18 and 29(1)(k) of the ACL. The court enforceable undertakings require Maggie Beer Products to amend the labelling of the "Maggie Beer" branded products that are made outside of South Australia to accurately reflect their place of manufacture; publish an educative article in *Food Magazine* and undertake a review of its consumer law compliance procedures.

ACCC's appetite for food labelling continues to grow

The pursuit of Maggie Beer Products follows a number of similar actions by the ACCC in the food labelling area, from producers of free-range eggs, Coles's "baked today" range, a butchery selling meat purportedly from King Island and even Beer's daughter Saskia Beer's black pig smallgoods range.

As Australian consumers' demand for premium and regional produce and products continues to grow, we expect to see a continued emphasis on credence and origin claims by the ACCC. ACCC Chairman Rod Sims noted "misleading representations about the origin of products to capitalise on this demand undermines the integrity of credence claims which are relied on by consumers and, equally important, can harm competing producers whose products are made locally".

The continued focus of the ACCC is a reminder to businesses to ensure that product labelling accurately reflects the contents of the product, and brands are updated (where necessary) to ensure that customers are not misled.

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5SOS! Trade mark in distress

One Mode Productions Limited [2014] ATMO 89



What you need to know

- Notoriety in a trade mark can be used to an applicant's advantage in the context of deceptive similarity, however, notoriety alone is not enough – there must be notoriety in the mark as a trade mark.
- Likely use or notional use of a mark, and not evidence of past use or proposed future use, is used to assess whether there is deceptive similarity.
- Evidence of how a word mark is supposed to be pronounced or intended to be pronounced does not displace how the word is most likely pronounced.

Background

The applicant, One Mode Productions Limited, (One Mode) requested a hearing during examination of Trade Mark Application number 1556294 for the word 5SOS, being an abbreviation of “5 Seconds of Summer”, the name of an Australian band. The application specified more than 150 goods and services in classes 9, 16, 25 and 41.

The Delegate in this *ex parte* hearing rejected One Mode's application under section 44 of the *Trade Marks Act 1995* (Cth) on the grounds that One Mode's mark closely resembled prior registered trade marks and claimed similar goods and services to these prior marks. The prior registered trade marks included the word mark SOS in classes 36 and 41 and two logos incorporating the word SOS in classes 9, 18 and 25.

During the hearing, One Mode conceded that the goods and services between the application for 5SOS and those of the prior cited marks were overlapping. However, One Mode contended that 5SOS was not deceptively similar to the word mark, SOS, or the logos incorporating SOS.

Principles and findings

The Delegate reviewed the principles distilled from Australian authorities on the meaning of “deceptively similar”. In particular, the Delegate considered that the mark and the prior marks are to be compared in the context of likely use or “notional” use, with consideration of the specified goods and services (in this instance, more than 150 specified goods and service), and not by reference to how One Mode has used the mark in the past or proposes to use it in the future.

More importantly, the Delegate considered that a mark can be so notoriously ubiquitous and long standing such that consumers are taken to be familiar with it and the goods and services associated with it (citing the Federal Court's consideration of *Registrar of Trade Marks v Woolworths* (1999) 93 FCR 365 in *CA Henschke & Co v Rosemount Estates Pty Ltd* (2000) 52 IPR 42).

In the present case, 5 Seconds of Summer is an Australian pop punk band which formed in 2011. The band originated as a YouTube sensation and has toured as a supporting act for One Direction as well as headlining its own concerts. The Delegate, however, considered that “[t]he name of this group is not notorious: apart from these proceedings I have not encountered the group”. In any case, the Delegate considered that even if there was notoriety in the name of the band, this does not equate to notoriety in the name of the band (or the abbreviation of the name of the band) as a trade mark.

The Delegate found that the internationally recognised distress signal, “save our souls”, abbreviated to SOS and pronounced “ess oh ess”, is similar to the mark 5SOS pronounced as “five ess oh ess”. That 5SOS had the addition of the number five did not detract from the prominent “SOS” abbreviation. In contrast, evidence filed on behalf of One Mode was that the mark should be pronounced “five soss”, which is consistent with what the band call themselves. The rationale for this submission was that the band has acquired a reputation for a name pronounced in this way, much like the Australian rock band, INXS, which is notoriously known to be pronounced as “in excess” and not “inks”. The Delegate rejected this submission, finding that the abbreviation, SOS, is more familiarly pronounced as “ess oh ess”, because of the distress signal. Therefore, it is most likely that 5SOS will be pronounced “five ess oh ess”.

In light of the “notoriety” of the distress signal and the seemingly obscure abbreviation for 5 Seconds of Summer, the Delegate considered that concurrent use the mark and the prior marks created a “species of confusion” and rejected the application. The Delegate suggested that deletion of the class 25 goods and amendment to the claim 41 services, thereby removing the overlap in goods and services, would result in possible registration.

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Compare The Market Pty Ltd pays infringement notice after allegations of false representations in comparative advertising claims

What you need to know

- Compare The Market Pty Ltd (Compare The Market) made certain claims in its advertising material to the effect that it compared the most health funds than any other website in Australia.
- The claims were incorrect and there are two other websites that compare policies of more health funds in Australia than Compare the Market.
- The ACCC issued an infringement notice and Compare the Market paid a penalty of \$10,200.

Compare The Market, famous for its use of meerkats in its television commercials, has been fined \$10,00 by the ACCC for false claims in its advertising.

Between 17 March and 19 May this year, Compare The Market distributed pamphlets in letterboxes in New South Wales, Victoria and Queensland which contained the claims “We now compare more health funds than any other website in Australia” and “Compare more health funds than anywhere else”. However, there are in fact two other websites that compare the policies of more health insurance funds than Compare The Market.

The ACCC also alleged that Compare The Market made similar representations via other media including its website, banner advertising, television infomercials and a digital display in its office foyer.

The infringement notice was issued in respect of the letterbox pamphlets on the basis that the ACCC believed Compare The Market had made a false or misleading representation in contravention of section 29(1)(g) of the *Australian Consumer Law* (ACL). The ACCC may issue an infringement notice where it has reasonable grounds to believe a person has contravened a consumer protection provision of the ACL. However, the payment of a penalty specified in any such notice is not an admission of a contravention of the ACL.

The ACCC has stated that emerging consumer issues in the online marketplace, particularly in relation to comparator websites, is a current priority area.

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IP Bite

Breast imaging cases recommend a humble approach to damage control

Australian Competition and Consumer Commission v Safe Breast Imaging Pty Ltd (No 2) [2014] FCA 998

Australian Competition and Consumer Commission v Breast Check Pty Ltd (No 2) [2014] FCA 1068

Background

In the [June 2014 edition of IP@Ashurst](#), we covered the findings of liability in the cases of *ACCC v Breast Check* and *ACCC v Safe Breast Imaging*, concerning misleading representations that certain breast imaging techniques were effective in detecting breast cancer. The Court has recently handed down decisions regarding penalties.

Pecuniary penalties

In *Safe Breast Imaging*, the respondents were a business intending to make a profit (though not very successfully), and its sole shareholder and director. The contravention was deliberate, and serious, with women's health at risk due to their resulting inability to make informed medical decisions. The misrepresentations were advertised online, and around 1,271 customers were affected. There was no evidence as to actual loss by affected women.

Applying the parity principle, Justice Barker considered the case of *ACCC v Willesee Healthcare Pty Ltd (No 2)* [2011] FCA 752, which considered similar false medical claims. Mitigating factors there included cooperation and the expression of regret (absent in *Safe Breast Imaging*), and a penalty of \$125,000 for the corporation and \$30,000 for each director was handed down. Ultimately, Justice Barker ordered a \$200,000 penalty for Safe Breast Imaging Pty Ltd and \$50,000 for its sole director and shareholder.

In *Breast Check*, a penalty was applied of \$75,000 for the company and \$25,000 for the doctor knowingly concerned in the misrepresentation. The difference arises from the differing circumstances of publication: physical flyers at the Breast Check clinic for around seven months, compared to internet advertising over several years by Safe Breast Imaging.

Other orders

The director of Safe Breast Imaging was disqualified from managing a corporation for four years due to the extent of her involvement and her continued defensive attitude. Declarations, injunctions, and an order for sealed reasons for judgment were handed down in both cases (only Safe Breast Imaging was ordered to publish corrections).

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