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# IP @ Ashurst

March 2014

## From the Editors

### Welcome to the March 2014 edition of *IP @ Ashurst*!

In this edition, we report on the High Court's decision in the *ACCC v TPG* case, in which TPG's advertisements were ultimately held to be misleading and deceptive and the original $2 million penalty was reinstated.

Another significant development this quarter was the release of the Australian Law Reform Commission's Final Report on *Copyright and the Digital Economy*, which recommends the introduction of a flexible "fair use" exception to copyright infringement.

Also in copyright, we cover the award of nominal damages for copyright infringement in the *ACP Machinery* case and the decision regarding costs in circumstances of innocent infringement in the *Tamawood* case. We also report on Ita Buttrose's successful action for copyright infringement (amongst other claims) regarding the unauthorised use of her image.

In patents, we report on the *Neobev* case concerning claims of ownership and inventorship, the *Mizzi* case concerning unjustifiable threats of patent infringement and the *RPL* case concerning patentability and manner of manufacture.

There have also been a number of interesting trade mark cases this quarter, including the family feud between members of the Jane family concerning the BOB JANE trade mark and a finding of contempt of court in the long-running TiVo dispute. We also report on victories for Stella McCartney, MAC and BUGATTI as well as the Trade Marks Office's rejection of PROSECCO as a geographical indication in Australia.

In marketing and advertising, we report on the ACCC's ongoing focus on credence claims (*Turi Foods* and *Luv-a-Duck*) cases and misleading conduct regarding consumer guarantees (including by Scoopon and Harvey Norman franchisees). We also cover the *P & N* case concerning false customer testimonials and "Australian" origin claims and the ACCC's sweep of children's app games.

We hope you enjoy this edition!

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# Contents

# ALRC recommends "fair use" in its *Copyright and the Digital Economy* Final Report

As reported in our previous update on the *Copyright and the Digital Economy Discussion* Paper and Issues Paper in the September 2012 and September 2013 editions of *IP @ Ashurst* respectively), the Attorney General asked the ALRC to review Australia's copyright laws and consider whether the exceptions and statutory licences set out in the *Copyright Act 1968* (Cth) (Act) are "adequate and appropriate" in the light of the digital environment, the public's expectations and the ubiquitous nature of technology, and whether further exceptions should be recommended.

## What you need to know

- On 13 February 2014, the much anticipated Australian Law Reform Commission (ALRC) Final Report on *Copyright and the Digital Economy* was tabled in Parliament.
- Most notably, the ALRC has recommended:
  - the introduction of a flexible "fair use" exception to copyright infringement; or
  - alternatively, the introduction of a single "fair dealing" exception which consolidates the existing fair dealing exceptions and covers fair dealings for certain new purposes.
- The Final Report also includes a range of other recommended key reforms, including changes to the retransmission scheme for free-to-air broadcasts.

The ALRC inquiry has been the most significant review of the Act since it came into operation in 1968, attracting over 850 submissions. The Government has not formally responded to the recommendations in the Final Report, but in his Statement to the Senate on 13 February 2014, Federal Attorney-General Senator George Brandis acknowledged that the recommendations would be controversial, and said the Government was "particularly concerned to ensure that no prejudice is caused to the interests of rights holders and creators".

## Primary recommendation – "Fair use" exception

As anticipated from its earlier Discussion Paper, the key recommendation in the Report is the proposed introduction of a "fair use" exception.

The Final Report recommends replacing the many complex and prescriptive exceptions in the Act, including the current fair dealing exceptions, time shifting and format shifting exceptions, with one broad and flexible standard of fair use.

The term "fair use" would not be defined in the Act. Instead, in determining whether a particular use of copyright material is fair, a non-exhaustive list of four principles, or "fairness factors", would need to be considered. Namely,

1. the purpose and character of the use;
2. the nature of the copyright material;
3. the amount and substantiality of the part used; and
4. the effect of the use upon the potential market for, or value of, the copyright material.

The ALRC has focused on the application of fair use to particular types of use, and has recommended that some of the uses be included for "illustrative purposes" to inform the fair use provision. The ALRC has suggested that the non-exhaustive list of illustrative purposes include:

- research or study;
- criticism or review;
- parody or satire;
- reporting news;
- professional advice;
- quotation;
- non-commercial private use;
- incidental or technical use;
- library or archive use;
- education; and
- access for people with disability.

The purposes would not create a presumption that a particular type of use is necessarily fair, but they suggest certain uses are more favoured or more likely to be considered fair.

There has been significant resistance from copyright creators and owners to the introduction of a fair use exception in Australia. Concerns include that by expanding the categories of conduct that would be permitted, the proposed new exception would not adequately protect the interests of copyright owners and creators, and by removing the previous prescription, the proposed new exception would give rise to uncertainty.

In response to such criticisms, the ALRC has argued that the fourth fairness factor (outlined above) would operate as a means of ensuring the interests of creators and other rights holders are considered (and thereby protected). The ALRC has also argued that the formulation of the exception proposed in the Final Report would indeed provide certainty, but within a flexible and adaptable framework.

In this regard, ALCR Commissioner, Jill McKeough, stated that fair use would be critical for Australia's digital economy because it provides "a flexible exception that can be applied to new technologies and services, which is crucial in the digital economy".

## Alternative recommendation – fair dealing exception

In light of the opposition by rights holders, the ALRC has also recommended an alternative fair dealing exception, if a fair use exception is not adopted.

Under this alternative the existing fair dealing exceptions would be consolidated and certain new purposes would also be provided for. These new purposes would include, quotation, non-commercial private use, incidental or technical use, library or archival use, education and access for people with disability.

This revised fair dealing exception would share a common list of purposes with the proposed fair use exception, but would replace the list of illustrative purposes with a list of prescribed purposes. Similarly, the fairness factors would be considered when determining whether the dealing is fair, along with any other relevant matters.

Despite fair use and fair dealing sharing many positive characteristics, the ALRC has warned that a confined fair dealing exception will be "less flexible and less suited to the digital age" than a flexible fair use exception.

> There has been significant resistance from copyright creators and owners to the introduction of a fair use exception in Australia.

## Broadcasting

The ALRC also considered the various exceptions relating to re-transmission of free-to-air broadcasts and whether they are appropriate in the digital economy. The ALRC noted these issues raise questions at the complex intersection between copyright and communications policy (and of course, in the context of the Australian Government not yet having addressed in any substantive manner the many recommendations of the Convergence Review Final Report).

Under the the Act and the *Broadcasting Services Act 1991* (Cth), the retransmission of free-to-air television and radio broadcasts by subscription television companies and other media content providers is subject to a range of exceptions, including those that rely on the concept of a "broadcast" and "broadcasting", and a statutory licensing scheme for retransmission of free-to-air broadcasts.

The ARLC notes that in a changing media environment, distinctions currently made in copyright law between broadcast and other platforms for communication to the public may require justification.

The ALRC has recommended that the Government consider whether the retransmission scheme for free-to-air broadcasts should be repealed (other than for self-help providers), thus avoiding the problematic issue of extending the scheme to internet transmissions.

Alternatively, if the existing retransmission scheme is retained, the ALRC has recommended that the scope and application of the internet exclusion should be clarified.

Given the complexity of the issues involved, while many of the exceptions depend on a distinction being drawn between "broadcasts" and other forms of communication, the ALRC does not recommend simply removing that distinction to enable the current broadcast exceptions to automatically apply to other forms of communication, but rather recommends that the Government give further consideration to these issues in developing copyright and communications policy.

The ALRC has noted that rather than extending the exceptions to other forms of communication, technological neutrality might be best served by removing existing exceptions that apply only to broadcasts, and some broadcast exceptions may therefore be repealed on the basis that:

- the relevant uses are likely to be covered by the recommended fair use or fair dealing exceptions, or
- they are amenable to voluntary licensing.

In this regard, the ALRC has controversially recommended the repeal of the statutory licensing scheme for the broadcasting of sound recordings, leaving licences to be negotiated voluntarily.

## Other recommendations

The ALRC has also recommended:

- retaining and reforming a number of existing specific exceptions, as well as introducing new specific exceptions, for unlicensed uses that are clearly in the public interest, and that are highly likely to be fair use;
- the reform of statutory licences that have attracted criticism from educational institutions and governments;
- limiting the remedies available for copyright infringement to encourage the use of "orphan works"; and
- clarity around when owners and users of copyright material can agree to "contract out" of the fair use or fair dealing provisions.

## What's next? The Australian Government's response

It remains to be seen whether the Australian Government will implement the recommendations of the ALRC.

On 14 February 2014, in his formal address at the opening of the Australian Digital Alliance forum in Canberra, the Attorney-General Senator Brandis said that he remained to be persuaded that a fair use exception is the best direction for the Australian law. Nevertheless, the Attorney-General promised he would bring an "open and inquiring mind" to the debate and has committed to:

- making the Act shorter, simpler and easier to use and understand;
- making the Act technology neutral; and
- paying careful regard to the broader international legal and economic context, particularly in light of the Abbott Government's negotiation of free trade agreements with major trading partners, which contain important provisions concerning copyright and other intellectual property issues.

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# The end of the roller-coaster ride: ACCC ultimately successful against TPG in the High Court

***Australian Competition and Consumer Commission v TPG Internet Pty Ltd* [2013] HCA 54**

## What you need to know

- On 12 December 2013, the High Court allowed the ACCC'S appeal and overturned the Full Court of the Federal Court's decision.
- The High Court found that TPG's advertising was misleading and reinstated the original $2 million penalty.

## What you need to do

- This case is not so much a reinvention of the wheel in relation to the use of disclaimers and fine-print but a useful reminder of the governing principles and the need to exercise caution.
- When using fine print and disclaimers, advertisers must:
  - consider the overall impression of their advertisement, examine the whole of the advertisement in its full context (including the target audience) and ensure that the overall impression is not misleading or deceptive;
  - only use disclaimers and fine print where this material is sufficiently prominent and to prevent the primary statement or claim from being misleading;
  - remember that disclaimers and fine print can only be used to qualify and explain the primary claim, not contradict it.
- Careful attention should be paid when advertising "bundled" products and services.

## Background

### The advertising campaign

In September 2010, TPG Internet Pty Ltd (TPG) launched a national advertising campaign for its ADSL2+ Internet service. The principal feature of the advertisements was an offer of "Unlimited ADSL2+ for $29.99 per month". The advertisements also stated, albeit less prominently, that to access this offer, consumers must:

- bundle the ADSL2+ service with a home telephone line from TPG at an additional $30 per month;
- pay a set-up fee of $129.95; and
- deposit $20 for telephone call charges.

TPG's campaign was conducted in two phases. The first phase lasted from 25 September 2010 to 7 October 2010, and involved advertising over national television stations, capital city radio stations, national and capital city newspapers and the internet.

### The ACCC's concerns

In early October 2010, the Australian Competition and Consumer Commission (ACCC) wrote to TPG expressing a number of concerns over the advertising campaign. The ACCC's primary concern was that the requirement to bundle the ADSL2+ service with other services was in small, difficult to read print, which was insufficient to qualify the dominant "Unlimited ADSL2+ for $29.99 per month" claim.

In response to the letter from the ACCC, but without accepting the correctness of the ACCC's concerns, TPG revised the advertisements. The revised advertisements were run by TPG for 13 months from 7 October 2010. In addition to the media used in the first phase, the second phase of revised advertisements also included brochures, public transport and billboard advertisements.

The total cost of TPG's campaign was $8.9 million.

## The first instance proceedings

In November 2011, the Federal Court of Australia found that TPG's advertising campaign was misleading or deceptive, as the full cost and conditions of the plan were not properly disclosed to consumers. The ACCC argued that TPG's conduct was in breach of the *Trade Practices Act 1974* (Cth) in respect of the advertisements published before 1 January 2011, and in breach of the *Australian Consumer Law* in respect of the advertisements published after that date.

In June 2012, the Federal Court ordered TPG to pay a pecuniary penalty of $2 million, among other penalties (please refer to our report on the first instance proceedings in the September 2012 edition of *IP @ Ashurst*).

## TPG's appeal to the Full Court of the Federal Court of Australia

TPG appealed to the Full Court of the Federal Court. On 20 December 2012, the Full Court allowed TPG's appeal in relation to all but one TV advertisement, finding that the primary Judge had erred and the advertisements were not misleading or deceptive (please refer to our detailed report on the Full Court's decision in the March 2013 edition of *IP @ Ashurst*).

On 4 April 2013, the Full Court handed down its decision regarding the penalty and TPG was ordered to pay $50,000 in respect of the initial misleading TV advertisements. The ACCC was also ordered to pay 75% of TPG's costs of the trial and appeal (please refer to our report in the June 2013 edition of *IP @ Ashurst*).

## Special leave to appeal to the High Court

On 18 January 2013, following the Full Court's decision on liability, but before the penalty decision was handed down, the ACCC announced that it had applied for special leave of the High Court to appeal the Full Court's decision.

On 16 August 2013, the ACCC was granted special leave to appeal to the High Court (please refer to our report in the September 2013 edition of *IP @ Ashurst*).

## The High Court decision

On 12 December 2013, the High Court (Chief Justice French, Justices Crennan, Bell and Keane with Justice Gageler dissenting) handed down its decision, allowing the ACCC's appeal and overturning the Full Federal Court's findings.

In particular, the High Court considered that the advertisements were misleading because:

- the target audience could only be expected to pay "perfunctory" attention to TPG's advertisements and many would only absorb "the general thrust" of the advertisements;
- consumers would not necessarily have known that internet services were commonly bundled with telephone services;
- in this context, the advertisements, viewed as a whole, had the tendency to lead consumers into error as they selected only some words for emphasis (ie the attractive aspects of the offer); and
- as a result, the home telephone bundling requirement and set up charges were not adequately disclosed.

The High Court stated "The tendency of TPG's advertisements to lead consumers into error arose because the advertisements themselves selected some words for emphasis and relegated the balance to relative obscurity".

The High Court also considered that the $2 million penalty ordered by the trial Judge was within the "appropriate range" and should be reinstated. TPG was also ordered to pay the ACCC's costs of the appeal to the Full Court and the appeal to the High Court.

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# Dispirited: Distilling claims of ownership and inventorship

***Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 3)*** **[2014] FCA 4**
***Neobev Pty Ltd v Bacchus Distillery Pty Ltd (Administrators Appointed) (No 4)*** **[2014] FCA 21**

## What you need to know

- Vague or undocumented arrangements regarding ownership of intellectual property, particularly inventions, may place a company's assets at risk.
- A court can rectify the Register of Patents to identify beneficial owners of a patent where circumstances show the patent is held on trust.
- Here, a patent was declared to be held on trust and the Register was rectified to show a sole inventor who was a consultant to the insolvent respondent company.

## What you need to do

- Ownership of inventions should be settled at the outset of a relationship and documented.
- Insolvencies can raise issues about ownership of rights. Ambiguity about ownership of IP rights can lead to costly litigation before an insolvent company's assets can be sold, and may affect the realisable value of intellectual property assets.

The administrators of Bacchus Distillery Pty Ltd (Administrators Appointed) (Bacchus) wished to sell Bacchus's assets urgently. The assets included a patent for a process for producing clear wine spirit (CWS). However, a claim by Neobev Pty Ltd (Neobev) that its director, Mr Max Scott, was the sole inventor, and that Neobev was a joint owner of the patent put Bacchus's rights to sell its patent rights in doubt.

On 16 January 2014, Justice Besanko of the Federal Court of Australia found that Mr Scott was the sole inventor of the CWS invention and that there was an agreement that the patent in the name of Bacchus was to be owned jointly by Bacchus and Mr Scott or his company Max Scott Consulting Pty Ltd (MSC). MSC and Mr Scott's rights had been subsequently assigned to Neobev.

On 4 February 2014, the Court declared that the patent for the CWS invention was held on trust by Bacchus for itself and the applicant in equal shares. The Court's orders also prohibited Bacchus from disposing of confidential information and copyright works relating to the patent without Neobev's consent.

> Even inattentiveness can significantly affect the value or liquidity of a company's intellectual property assets.

## Inventorship and ownership

In the early to mid-2000s, Bacchus engaged Mr Scott as a consultant to develop a new, cost-effective and stable base spirit used for creamy liqueurs. The terms on which Mr Scott was engaged were discussed at length, but were not reduced to a formal agreement.

An opportunity for Bacchus to obtain government funding to acquire machinery arose. Obtaining a patent for the CWS process would help Bacchus to secure the funding, so Mr Scott agreed to allow the patent application to be filed in the name of Bacchus.

Mr Scott was involved in instructing the patent attorneys who prepared the patent application, which named both Mr Scott and Bacchus's executive director and Chief Executive Officer, Mr Hajdinjak, as joint inventors, but with Bacchus as the sole owner of the patent.

The Court heard evidence of each side's recollection of the events, and commented that the evidence was unclear in many respects. Ultimately, the Court found that in cross-examination, Mr Hajdinjak admitted that he and Mr Scott had agreed the patent would be jointly owned (despite only Bacchus being named on the application).

After some "anxious consideration", Justice Besanko also found that Mr Hajdinjak had not contributed anything of substance to the invention, and consequently that Mr Scott was the sole inventor. Of concern to the Court was that despite having been central to the patent application preparation, Mr Scott had taken no steps to rectify the misstatement of inventorship for more than eight years.

## Specific performance

Neobev also sought orders for specific performance of terms of a royalty agreement from 2012, which Neobev contended must be applied to any third party that acquired the patent from Bacchus. Justice Besanko found the royalty agreement to be vague and uncertain and, therefore, void.

Justice Besanko found that Bacchus could not assign its obligation to keep confidential Neobev's information, and also ordered that any offer to sell the information and some associated copyright works was prohibited.

The conduct of the parties in their initial negotiations about ownership of the CWS patent and inventorship of the invention was at best inattentive, and arguably less than scrupulous.

## Lesson

This case demonstrates that even inattentiveness could significantly affect the value or liquidity of a company's intellectual property assets. Companies should always document clearly the terms of any agreements with third parties engaged to develop inventions – or any other intellectual property asset – to minimise the risk of dispute about ownership at a later date.

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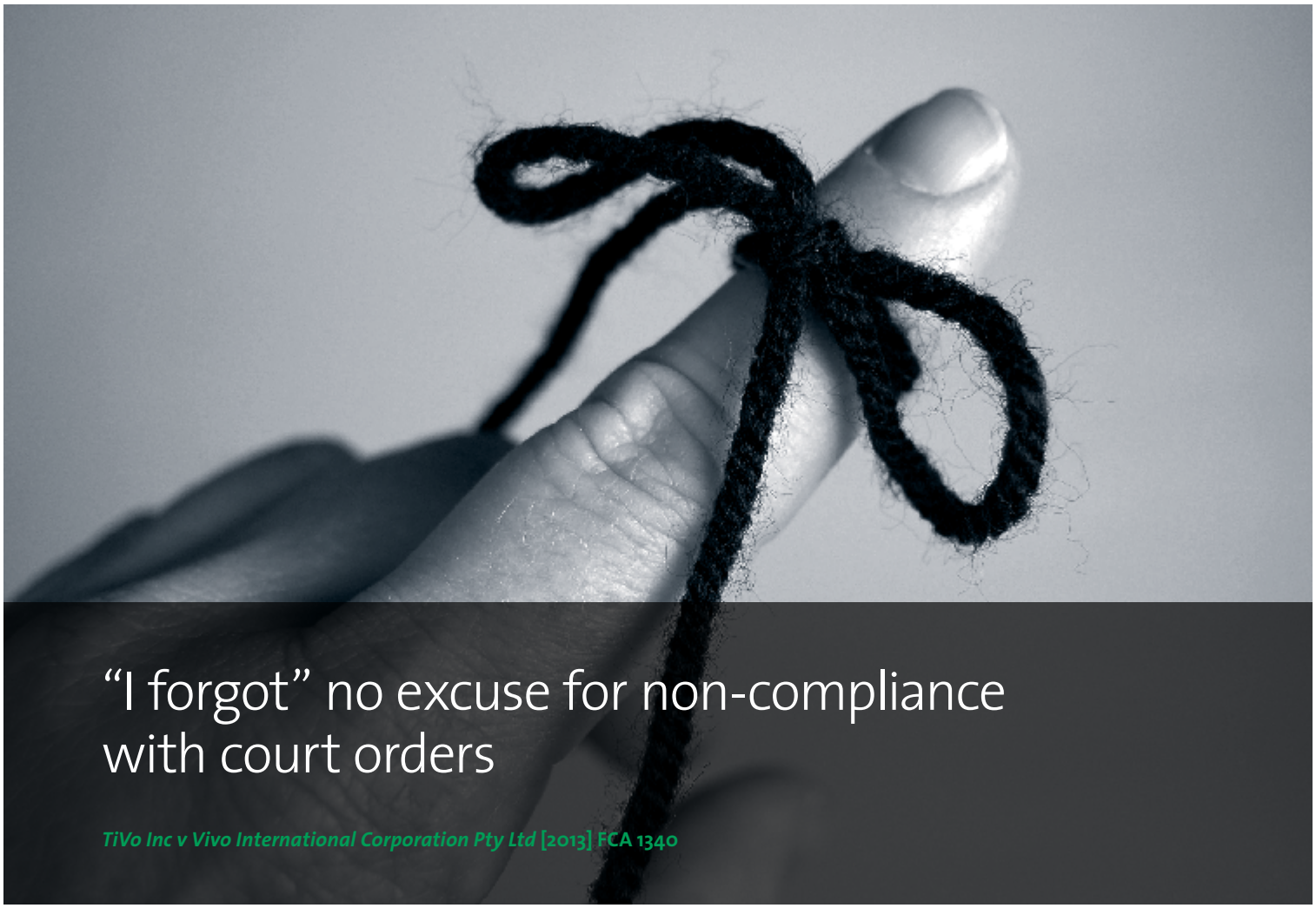

# "I forgot" no excuse for non-compliance with court orders

*TiVo Inc v Vivo International Corporation Pty Ltd* [2013] FCA 1340

## What you need to know

- The Federal Court found contempt of court for failure to deregister a domain name which had been found to infringe a registered trade mark and for allowing product manuals bearing the infringing mark to be published on a website.
- Neglect, carelessness and dereliction of an obligation may amount to contempt of court – there is no need for "defiance".
- Third parties not directly bound by orders may still be found to be in contempt.

## What you need to do

- Litigants should not allow another party to continue under a misapprehension about facts if it will impede efficient justice.

TiVo Inc and TiVo Brands LLC (together, TiVo) obtained orders made by consent in a trade mark infringement proceeding before Justice Dodds-Streeton under which Vivo International Pty Ltd (Vivo) was required to cancel two domain registrations by 2 August 2013, and was restrained from using the VIVO trade mark.

Justice Pagone of the Federal Court found that the failure to comply with Justice Dodds-Streeton's orders was a contempt of court by Vivo, its director, Mr Grassia, and two other of Mr Grassia's companies, Red 88 Pty Ltd (Red 88) and Viano Corporation Pty Ltd (Viano).

Notably, although Justice Dodds-Streeton's orders bound only Vivo directly, a court has the power to find in contempt a third party which conducts itself" as to obstruct the course of justice".

## Domain name cancellations

On 5 August 2014, TiVo's solicitors wrote to Vivo's solicitors and demanded the immediate cancellation of the domain name registrations, compliance being already three days late.

On 7 August 2013, Mr Grassia cancelled the registration for vivotvs.com but his actions were (possibly unwittingly) not sufficient to cancel the vivotvs.com.au registration.

Vivo did not respond at all to TiVo's letter of 5 August and on 10 September 2013, TiVo filed the contempt proceedings. The vivotvs.com.au registration was eventually cancelled on 25 October 2013, shortly before the hearing.

Vivo and Mr Gassia argued that the failure to deregister the domain names was not a contempt of court because Mr Grassia had simply forgotten about the obligation to do so and, in any event, the contempt was purged before the hearing. Mr Grassia gave evidence that circumstances including his wife's pregnancy, his business being short staffed and the stress of the litigation caused him to forget the obligation. The omission, it was argued, was therefore not "contumacious".

Justice Pagone held that contempt need not be defiant conduct, but that Mr Grassia's failure to comply was not merely "casual, accidental or unintentional". Mr Grassia had taken no steps to comply with the orders until 7 August 2013, and did not then take the care that was needed to ensure Vivo complied with the court's orders.

The failure of Vivo to respond to TiVo's letter was an important factor in the outcome. The Court emphasised the principle that litigants should act to achieve the purposes set out in section 37M of the *Federal Court of Australia Act 1976* (Cth) for the efficient disposition of disputes. In this case, the obligations as litigants were on-going because determination of damages had not occurred – the contempt action was filed as an interlocutory application in the main proceeding. By failing to respond to TiVo's letter of 5 August 2013, Vivo left TiVo under the misapprehension that Vivo had done nothing at all to cancel the domain registrations.

## Product manuals bearing infringing trade mark

Vivo's defence to the charges that it had caused or allowed product manuals bearing the infringing VIVO trade mark to be published on the websites of Red 88 and Viano was that Mr Grassia and his wife, Ms Cavalli, had no idea how the documents were placed there. They did not contest whether the trade mark applied to the manuals was use of the trade mark or that its presence contravened Justice Dodds-Streeton's orders.

Mr Grassia and his wife were the only people who could have authorised placing the materials there, and Justice Pagone found that Mr Grassia had authorised that placement, even if through paying insufficient attention to their content.

TiVo did not ask the Court to impose a penalty for the contempt that was found, but did obtain orders that its costs of the contempt proceeding be paid on an indemnity basis.

## Lesson

This case demonstrates that even relatively insignificant non-compliance with court orders, such as a short delay, or a small number of trade mark uses, can result in a contempt finding. Forgetfulness and inattentiveness to obligations on a company will not excuse a contempt, and a finding of contempt may extend to any third party who is involved in obstructing justice, such as directors or executives of a company.

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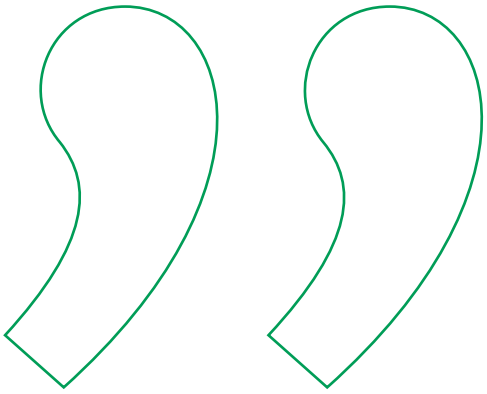

# Paltry conduct: ACCC continues its crusade against misleading poultry and egg claims

The ACCC has taken action against a number of poultry and egg producers making misleading claims regarding their products and growing conditions. We report on a number of recent developments in these cases, including penalties awarded against the businesses and further action taken by the ACCC.

## What you need to know

- The Federal Court has ordered Steggles to pay $400,000 over misleading "free to roam" claims concerning meat chickens. The Chicken Meat Federation Inc was ordered to pay $20,000 in respect of the same claims.
- Duck meat supplier Luv-a-Duck has also been ordered to pay a $360,000 penalty for misleading claims that its ducks were "range reared".
- The ACCC has also commenced proceedings against two egg producers concerning the use of "free range" claims.

## What you need to do

- Ensure that all claims (express or implied) about a product, including any claims about the product's standard or attributes are accurate and can be substantiated.
- In particular, credence claims or claims which suggest that a product is premium, or of a particular standard, should be carefully considered before being used on product packaging, website content or in other promotional material.

## "Free to roam"

***Australian Competition and Consumer Commission v Turi Foods Pty Ltd (No 5)* [2013] FCA 1109** and ***Australian Competition and Consumer Commission v Turi Foods Pty Ltd (No 6)* [2013] FCA 1233**

In the September 2013 edition of *IP @ Ashurst*, we reported on the ACCC's action against a number of other chicken growers as well as the Chicken Meat Federation Inc. (Association) regarding misleading claims that their meat chickens were "free to roam".

The proceedings against the first respondent, Turi Foods Pty Ltd had previously been resolved with Turi Foods paying a penalty of $100,000 by consent in 2011.

These proceedings concerned Baiada Poultry Pty Ltd and Bartter Enterprises Pty Ltd, the processors and suppliers of STEGGLES branded chicken (together, Steggles) and the Association.

In July 2013, the Federal Court held that the use of "free to roam" was misleading and contravened the *Australian Consumer Law* (ACL) as the chickens were grown in such close proximity to one another that they could not be said to be free to move around the barns at will and unimpeded.

In October 2013, the Federal Court handed down its decision regarding the penalty for the misleading "free to roam" claims. Steggles was ordered to pay a penalty of $400,000 in respect of the use of the "free to roam" claim on its product packaging and advertising. The Association was ordered to pay a penalty of $20,000 arising from the use of the "free to roam" claim on its website and in publications.

In a separate judgment in November 2013, Steggles was also ordered to pay the ACCC's costs.

## "Range reared"

***Australian Competition and Consumer Commission v Luv-a-Duck Pty Ltd* [2013] FCA 1136**

The ACCC also brought proceedings against Luv-a-Duck Pty Ltd for misleading and deceptive conduct.

Luv-a-Duck has a market share of approximately 40% in Australia and supplies around 80,000 ducks per week.

The ACCC took issue with Luv-a-Duck's claims that its ducks were:

- "grown and grain fed in the spacious Victorian Wimmera Wheatlands"; and
- "range reared and grain fed".

Luv-a-Duck made these claims on its product packaging, website, brochures and at a promotional event.

The ACCC claimed that these claims were misleading and in contravention of the ACL as the ducks were grown in a barn and did not spend any time outside the barn.

By consent, the Federal Court ordered Luv-a-Duck to pay a penalty of $360,000 and to pay $15,000 towards the ACCC's costs of the proceedings. Luv-a-Duck was also ordered to publish corrective notices.

## "Free range"

In December 2013, the ACCC also instituted separate proceedings against two egg producers Snowdale Holdings Pty Ltd (Snowdale) and Pirovic Enterprises Pty Ltd (Pirovic). The ACCC claims that Snowdale and Pirovic has contravened the ACL through the use of the claim "free range" on their packaging and websites. The ACCC claims that the eggs supplied by these companies were produced by hens that were not able to move about freely on an open range each day.

These proceedings arose from a large-scale investigation conducted by the ACCC in April 2013, whereby the ACCC sent requests to a number of egg producers asking them to substantiate the claims that their eggs were "free range".

Further directions in the Snowdale and Pirovic matters are scheduled for April 2014 and March 2014 – watch this space for further developments!

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# Pyrrhic victory in the Federal Court: Nominal damages award for copyright infringement

***ACP Machinery Australia Pty Ltd v Aerospace Technologies of Australia Ltd* (No 4) [2013] FCA 1237**

## What you need to know

- In a recent decision, the Federal Court awarded nominal compensatory damages amounting to $10 and declined to award additional damages for copyright infringement.
- The applicant claimed compensatory damages amounting to its expected gross profit on a supply contract on the basis that the respondent's copyright infringement deprived it of a bargaining chip which could have secured the contract.
- On the evidence, the Court found the applicant's failure to secure the contract was unrelated to the copyright infringement and therefore no damage was suffered.
- The Court did not award additional damages because, even though the infringement was "casual to the point of careless", the Court was not satisfied that the copyright infringement was flagrant.

In this case, Justice Jessup considered a claim by ACP Machinery Pty Ltd (ACP) for both compensatory damages and additional damages under section 115 of the *Copyright Act 1968* (Act) to remedy an infringement of its copyright in certain computer-aided design (CAD) drawings. The claim followed an earlier decision by Justice Jessup that Boeing Aerostructures Australia Pty Ltd (BAA) (the second respondent in the proceedings) had infringed ACP's copyright in the CAD drawings by disclosing a copy to a third party, Marand.

The CAD drawings in question depicted the design of a universal holding fixture (UHF) to be used for the production of wing panels for an aircraft. Key to ACP's damages claim was the fact that, at the time of the infringement, Marand had been engaged by BAA to design and construct a new UHF and ACP was negotiating with BAA to supply actuators for use in a new UHF.

Justice Jessup was not satisfied that ACP had in fact suffered damage as a result of BAA's copyright infringement and therefore was not prepared to assess damages as being "at large".

## ACP's claim for compensatory damages

ACP based its claim for compensatory damages under section 115(2) of the Act on two alternative arguments. First, ACP argued that the copyright infringement deprived it of important leverage in its negotiation with BAA regarding the supply of actuators. ACP claimed that it would have made the release of the CAD drawings to Marand conditional upon acceptance of its quote for the supply of actuators to BAA and therefore was entitled to compensatory damages amounting to the gross profit it would have made from the sale of the actuators.

Additionally, ACP argued that so long as its chances of securing the supply contract would have been enhanced "to any extent" by its ability to use the drawings as a bargaining chip, it should be awarded damages reflecting the probability of such success. This approach would require the Court to estimate the probability that ACP would have secured the contract as a percentage and apply the relevant percentage to the gross profit to determine the applicable damages.

Justice Jessup rejected ACP's arguments and concluded that the use of the CAD drawings as a bargaining chip in negotiations would not have secured or even improved ACP's prospects of winning the contract to supply actuators. As the CAD drawings would not have any utility to BAA and Marand unless and until they made an independent decision to purchase ACP's actuators, the proposition that BAA would have accepted the quote in order to release the CAD drawings was unrealistic. On the evidence, Justice Jessup found that it was ACP's pricing for the actuators which in fact excluded ACP from converting the opportunity to win the supply contract. Consequently, Justice Jessup only awarded nominal damages amounting to $10.

ACP also put forward the alternative argument that a jury-like assessment for damages "at large" was appropriate. In copyright infringement cases where it is established that damages have been suffered but there is no precise approach for assessing the quantum of damages (such as a licence fee), there is authority for courts to award damages of an amount that the court would think right if it were a jury. However, Justice Jessup was not satisfied that ACP had in fact suffered damage as a result of BAA's copyright infringement and therefore was not prepared to assess damages as being "at large".

## ACP's claim for additional damages

ACP claimed additional damages under section 115(4) of the Act on the basis that the infringement was "flagrant" and that BAA derived a benefit from the infringement. Section 115(4) permits a court to award additional damages it considers appropriate, taking into account factors such as the flagrancy of the copyright infringement.

Justice Jessup held that even though the copyright infringement by BAA had been "casual to the point of careless", there was no evidence of a flagrant breach for the purposes of section 115(4) of the Act. Justice Jessup found that the infringement could not be characterised as "flagrant", as copyright protection had not been specifically drawn to the infringing party's attention (notwithstanding the existence of an "inconspicuous" copyright notice on the drawing) and the infringing party had not turned its mind to the subject. As BAA's infringement did not occur after it was put on notice of ACP's copyright, additional damages were not awarded.

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# Fake testimonials and false claims of "Australian-made" solar panels leaves company with a slip, slop, slap

***Australian Competition and Consumer Commission v P & N Pty Ltd* [2014] FCA 6**

## What you need to know

- Any advertising materials, whether YouTube videos or product websites, or the more traditional print and television advertisements, are capable of contravening the *Australian Consumer Law* (ACL) by making, or being likely to make, false or misleading representations.
- Employees who authorise or control the publication of a company's advertising materials may be liable for the contraventions of the ACL if the employees know the falsity or misleading nature of the advertising.

## What you need to do

- Ensure that any "Australian" origin claims, such as "Made in Australia" and "Product of Australia" comply with the specific requirements of the ACL regarding country of origin claims.
- Only use genuine customers of a product to communicate feedback about it and give testimonials.
- If you are a wholesaler, you can publish testimonials from end user customers of your products but you must ensure that they are not identified as your direct customers.

The ACCC successfully sued P & N Pty Ltd, P & N NSW Pty Ltd, Worldwide Energy and Manufacturing Australia Pty Ltd (WEMA) and Mr Nikunjkumar Patel, the sole director and shareholder of the defendant companies, for misleading and deceptive conduct and for making false or misleading representations about the place of origin of goods and false testimonials in advertising materials for the sale of solar panels.

This level of involvement in the representations and his knowledge of their falsity amount to Mr Patel also being personally liable for the contraventions of the ACL.

## The representations

The advertisements suggested the solar panels were made in Australia (the "Made in Australia Representations") by describing the products as "Australian solar panels" and using a logo with the words "Australian Solar Panel" and a map of Australia (Logo). In fact, the solar panels were manufactured in China.

Some of the advertisements on YouTube and product websites also included video and written testimonials from purported purchasers of the solar panels (the "Testimonial Representations"). The customers were actors following a script, and not genuine purchasers of the solar panels. Also relevant was that WEMA is a wholesale supplier of solar panels, and does not have end user customers, but it published testimonials from purported end user customers.

## Personal liability

Both Mr Patel and the defendant companies admitted that the Made in Australia Representations, the use of the Logo and the Testimonal Representations contravened the ACL.

Mr Patel was found to have contravened sections 224(1)(e) and 232(1)(e) of the ACL, where he was liable for being knowingly concerned in, or a party to, the defendant companies' contraventions.

In particular, Mr Patel knew the solar panels were manufactured in China and that the people giving the testimonials in the advertising materials were not customers providing feedback, but instead actors reciting scripts. The Court also drew attention to Mr Patel's role in the making of the representations. Mr Patel decided that the defendant companies would use the brand name "Australian Solar Panel", and registered it as the business name for one of the companies, WEMA. Mr Patel also registered the domain names australiansolarpanel.com.au and australiansolarpanel.com, and registered the trade marks for the Logo.

This level of involvement in the representations and his knowledge of their falsity amount to Mr Patel also being personally liable for the contraventions of the ACL.

## The relief granted by the Court

The advertisements ran for between one to nine months. Justice Besanko found this to be a fairly substantial period of time. As such, His Honour ordered that the declarations of the contraventions specifically stated the time periods over which the contravening materials were available.

Justice Besanko ordered the companies to pay $125,000 and Mr Patel to pay $25,000 in civil penalties. In calculating this penalty amount, his Honour took into account the fact that the advertisements encouraged people to purchase the solar panels because they were made in Australia. His Honour noted that the defendants' cooperation with the ACCC throughout the trial was a significant mitigating factor in determining the penalties.

His Honour also granted injunctions which restrain the defendant companies and Mr Patel from making representations that the solar panels are made in Australia or testimonials that are not genuine. The defendants had to remove all Made in Australia and Testimonial Representations from their website and other materials. Lastly, the defendants were also ordered to publish prominent corrective notices in major newspapers to advise customers of the false, misleading or deceptive conduct and also to perform a "valuable educative role" to identify which conduct contravenes the ACL.

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# Family feud in the Federal Court: Rodney Jane claims chequered flag while Bob Jane crashes out

***Bob Jane Corporation Pty Ltd v ACN 149 801 141 Pty Ltd & Ors*** **[2013] FCA 1255**

## What you need to know

- On 26 November 2013, the Federal Court of Australia held that the well-known former racing car driver, Bob Jane, and five of Mr Jane's companies and a business associate, had infringed four registered trade marks owned by his former company, Bob Jane Corporation Pty Ltd (BJC). In addition, the Court also held that the respondents had engaged in misleading and deceptive conduct in contravention of the *Australian Consumer Law* and had engaged in passing off.
- Justice Besanko ordered that the respondents be restrained from selling goods or trading under business names that infringed the registered trade marks owned by BJC. Justice Besanko also ordered the respondents to pay BJC's costs on an indemnity basis.

## What you need to do

- The *Trade Marks Act 1995* (Cth) provides a defence to trade mark infringement where a person uses in good faith the person's name or the name of the person's place of business.
- The defence does not excuse all use of a person's name or of the name of the person's place of business. To rely on the defence successfully, the conduct of the alleged infringer must have been in good faith. In particular, there should be no attempt to leverage off the reputation and goodwill of the owner of the trade mark and to the extent that the alleged infringer is aware of the trade mark of the owner, it should have satisfied itself that reasonable consumers would be unlikely to be deceived into wrongly associating its goods and services with those of the trade mark owner.

Bob Jane Corporation Pty Limited (BJC) is one of Australia's leading tyre and automotive accessory retailers and tyre installation service providers. BJC carries on business under the names BOB JANE T-MARTS and JANE FLEET. The first BOB JANE T-MARTS store was established in 1965, by the well-known former racing car driver, Bob Jane. Bob Jane served as a director and shareholder of BJC until 2011. Since 2002, Rodney Jane, one of Bob Jane's sons, has been the Chief Executive officer of BJC.

In 2011, following a long-running family dispute, Bob Jane ceased to be a director and shareholder of BJC. Shortly thereafter, Bob Jane founded a number of companies in direct competition with BJC, including under the names Bob Jane Global Tyre Corporation (Australia) Pty Limited, Bob Jane China Corporation Pty Limited, Bob Jane Networking Plus Pty Limited, Bob Jane Southern Motors Pty Limited and Bob Jane Global Tyre Corporation (Hong Kong) Limited (together, the respondents). Bob Jane sent emails to BJC's franchisees and suppliers informing them of the respondents' business activities.

## Procedural history

The procedural history between BJC and the respondents was protracted and acrimonious. For example, in response to a letter of demand sent by Rodney Jane of BJC asking Bob Jane to cease contacting BJC's franchisees and threating legal proceedings, Bob Jane responded in the following terms:

> *Rodney,*
>
> *I will contact who I like, when I like, about what I like.*
>
> *You are a liar and thief.*
>
> *Sue me*
>
> *Bob Jane*

For present purposes, it is sufficient to state that BJC sought and obtained interlocutory relief restraining the respondents from conducting businesses and selling products using the name BOB JANE or other names which were substantially identical with or deceptively similar to BJC's registered trade marks.

The final hearing took place on 2 and 3 September 2013. None of the respondents, including Bob Jane, appeared on the first day of the trial. Bob Jane's daughter sent an email to the chambers of Justice Besanko on the morning of the first day of the final hearing informing the Court that Bob Jane had been admitted to hospital. Justice Besanko, however, considered that it was appropriate for the final hearing to proceed, as the email did not establish a genuine medical emergency, the final hearing had been listed for some time and none of the respondents availed themselves of the opportunity to appear before the Court to put forward evidence in support of any application for adjournment.

## Trade mark infringement

The Court found that the respondents had infringed four of BJC's trade marks by using marks which were substantially identical with or deceptively similar to BJC's marks in the course of the respondents' businesses, including on the respondents':

- websites, including sponsored advertisements on the Google search engine facility;
- advertisements, in both online and print form; and
- promotional and advertising materials, including clothing, signage, packaging, business cards, letterheads, email signatures, receipts, invoices, vehicles and automotive parts.

Section 122(1) of the *Trade Marks Act 1995* (Cth) provides a defence to trade mark infringement in circumstances where, amongst other things, the person uses the person's name or the name of the person's place of business in good faith.

In Justice Besanko's view, the respondents did not satisfy the requirements of the defence as:

- the respondents failed to appear, adduce evidence and discharge their onus of proving that they used the infringing marks in good faith;
- Bob Jane had allowed his name to become part of BJC's registered trade marks and, therefore, was aware of BJC's use of those marks;
- the respondents used the infringing marks with the intention of leveraging off the reputation and goodwill of BJC and wrongfully diverting business from BJC to the respondents; and
- accordingly, Bob Jane had not made honest use of his own name given that a reasonable consumer would be deceived into associating the respondents' products and services with those of BJC.

The Court ordered that the respondents:

- be restrained from carrying on business under names which were substantially identical with or deceptively similar to BJC's registered marks;
- change their company and business names and the signage on their premises to names which were not substantially identical with or deceptively similar to BJC's registered marks;
- deliver up to BJC all goods and advertising and promotional materials which were substantially identical with or deceptively similar to BJC's registered marks; and
- transfer registration of its two domain names to BJC.

## Misleading and deceptive conduct

Justice Besanko declared that the respondents had engaged in misleading and deceptive conduct in contravention of section 18 of the *Australian Consumer Law* by making representations in an email sent to BJC's suppliers and in advertisements published on the Google search engine facility that the respondents' products were "30% to 50% cheaper" than those of their competitors.

Justice Besanko considered this representation to be misleading and deceptive as it did not take into account factors including freight, delivery to store, removal of old tyres, fitting of new tyres, wheel balancing and disposal of old tyres.

Justice Besanko restrained the respondents from making similar representations in the future.

## Passing off

Justice Besanko found that the respondents' conduct amounted to passing off on that basis that BJC's trade marks were a part of its get up and therefore recognised by the public as distinctive of its goods and services, the respondents had represented to the public that their goods and services were BJC's and BJC suffered loss of business as a result of the respondents' activities.

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# Butting heads on unauthorised use of Ita Buttrose's image

***Buttrose & Anor v The Senior's Choice (Australia) Pty Ltd & Anor* [2013] FCCA 2050**

## What you need to know

- The Senior's Choice (Australia) Pty Ltd and its Director, Andrew Philpot (together, the respondents) published a photograph of Ita Buttrose on the Senior's Choice website (together with a link to an interview she had done with the ABC), and on Seek.com without Ita Buttrose's permission.
- The Federal Circuit Court of Australia held that the image of Ms Buttrose was the exclusive property of Ita Buttrose Pty Ltd. The Court issued a summary judgment that the respondents would have no reasonable prospect of successfully defending the copyright infringement, *Australian Consumer Law* (ACL) or common law passing off claims.
- The Court ordered judgment for Ms Buttrose and her company with damages to be assessed at a later date.

## What you need to do

- It is crucial to ensure that you have permission from the copyright owner before reproducing any photographs (or any other works protected by copyright law).
- Even with permission to reproduce a photograph, where the person captured in the photograph is well-known, use of the photograph must not misrepresent any association between the user of the work and that well-known person.

On 11 November 2013, the Federal Circuit Court of Australia issued a summary judgment that the respondents had no reasonable prospects of defending the claims brought against them and therefore that they were liable for copyright infringement, contraventions of the *Australian Consumer Law* and common law passing off. On 5 December 2013, Justice Jones published reasons. The Court ordered discovery prior to a hearing on the quantum of damages to be awarded, which was scheduled for 3 March 2014.

## Background

The first applicant, Ita Buttrose, is a well-known Australian having achieved many accolades including the 2013 Australian of the Year award. The Court was satisfied of Ms Buttrose's substantial reputation amongst the business community and general public and that organisations have paid licensing fees for the use of Ms Buttrose's name, image or likeness to be associated with their products.

The respondents approached Ms Buttrose's agent to have her endorse their in-house services for the elderly through a TV advertising campaign. Ms Buttrose's agent included an electronic copy of a photograph of Ms Buttrose in a profile it sent to the respondents for the purpose of the respondents considering whether to enter into a commercial arrangement. However, no agreement between the parties eventuated.

Nevertheless, on 17 April 2013, the respondents published Ms Buttrose's image (being the exact image received from her agent) and a link to an interview she had done about dementia (for the ABC network) on the Senior's Choice website.

In response, Ms Buttrose's agent emailed the respondents putting them on notice that they did not have permission to use the image and requesting that it be taken down. Two days later, a third party posted the material to Facebook with many people making adverse comments about Ms Buttrose's affiliation with the respondents' "The Senior's Choice" business. On 23 April 2013, the image of Ms Buttrose was used on an advertisement for the respondents on Seek.com to promote the Senior's Choice business. The respondents conceded that the advertisements used Ms Buttrose's image without permission.

> The Court noted that the use of the image of Ms Buttrose on the respondents' website and on Seek.com falsely conveyed that Ms Buttrose approved of the respondents' services.

## Summary judgment

The Court is entitled to make summary judgment under section 17A of the *Federal Circuit Court Act 1999* (Cth) if the Court is satisfied that the respondent has no reasonable prospect of successfully defending the proceeding. The respondent's defence does not need to be hopeless or bound to fail. In this proceeding, the Court noted that the respondents' defence contained general, bare denials with no particulars.

## Copyright infringement

The Court was satisfied that Ita Buttrose Pty Ltd was the owner of the image of Ms Buttrose (having obtained ownership from the photographer through a deed of assignment). The Court agreed that this image is an artistic work under section 32 of the *Copyright Act 1968* (Cth) and that accordingly, Ita Buttrose Pty Ltd had exclusive rights to reproduce, publish and communicate the image.

Given the admission by the respondents that the image was used without permission, the Court held that the respondents (including the director as the person who authorised the initial advertisement, and as guiding mind of the business) had no reasonable prospect of successfully defending the claim of copyright infringement and gave summary judgment in the applicants' favour.

## Passing Off

The Court was satisfied that Ms Buttrose has a valuable reputation, and that the respondents were aware of that reputation.

The Court noted that the misrepresentation need only be likely to lead the public to believe that the goods are endorsed by Ms Buttrose. It was evident by referring to the Facebook posts that members of the public believed the advertisements were in fact endorsed by Ms Buttrose. The Court further inferred that the image was placed on Seek.com with the intention to mislead the public that Ms Buttrose endorsed the respondents' product.

The Court noted that there was direct evidence of actual damage, being the fee typically charged by the applicants for endorsements. As such, the Court held that there was no reasonable prospect of the respondents defending the claims of passing off and gave summary judgment in the applicants' favour.

## ACL

The applicants brought claims in pursuance of sections 18(1) and 29(1) of the ACL, which prohibit false, misleading or deceptive representations. The Court noted that the reaction of the public on Facebook enabled an inference that there was a real and not remote possibility that the respondents' conduct was likely to mislead or deceive.

The Court noted that the use of the image of Ms Buttrose on the respondents' website and on Seek.com falsely conveyed that Ms Buttrose approved of the respondents' services. The Court held that the respondents had no reasonable prospect of successfully defending the ACL claims and also gave summary judgment in the applicants' favour in this regard.

## Orders

The respondents were restrained from using Ms Buttrose's name, image or likeness in any material, or engaging in conduct that is likely to mislead members of the trade of an affiliation between the parties. The respondents were further ordered to publish corrective advertising and destroy all infringing items in their possession.

The matter was back in Court on 3 March 2014, for a hearing to determine the quantum of damages to be awarded to Ms Buttrose and her company. Judgment on the amount of damages is expected to be handed down soon.

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# IP Bite

## To settle or not to settle? Tamawood to pay Builder costs

***Tamawood Limited v Habitare Developments Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed) (No 6)* [2013] FCA 410**

Following the substantive judgment in May 2013 (as reported in the September 2013 edition of *IP @ Ashurst*), the Federal Court has now handed down its decision regarding the determination of costs between Tamawood Limited (Applicant) and the second and fifth respondents, Bloomer Constructions Pty Ltd and director Mr Wayne Bloomer (Bloomer respondents).

In the cost proceedings, the Bloomer respondents submitted that as a statutory defence of innocent infringement had been proven in the initial proceedings (under section 115(3) of the *Copyright Act 1968* (Cth) (Act)), costs should be awarded accordingly. Justice Collier agreed with the Bloomer respondents in this regard and ordered the Applicant to pay the costs of the Bloomer respondents.

In order to determine the appropriate costs order to be made against the Applicant, the Bloomer respondents submitted that the Court take into account the two offers of settlement made to the Applicant on 2 September and 13 October 2011. The Bloomer respondents sought to rely on the principle set out in *Calderbank v Calderbank* [1975] 3 All ER 333. Under this principle, if an offer is made by a respondent and an applicant unreasonably fails to accept the offer and the applicant's proceeding is dismissed, the respondent is entitled to an order of costs.

As the Applicant's proceedings against the Bloomer respondents were not strictly dismissed, Justice Collier did not view the *Calderbank* principle as applicable on the facts. Nevertheless, Justice Collier, having regard to several other factors, determined the Applicant pay costs incurred prior to 2 September 2011, on a party and party basis and on an indemnity basis thereafter.

As part of these factors, Justice Collier considered:

- the evidence that the Bloomer respondents did not derive any profits from the project (which did not entitle the Applicant to an account of profits under section 115(2) of the Act);
- the Bloomer respondents' pre-trial communications to the Applicant which set out that they were unaware of any alleged breach of copyright by Habitare Developments; and
- the Bloomer respondents' pre-trial offers to the Applicant to settle the proceedings and bear their own costs.

Therefore, despite the *Calderbank* principle not strictly applying to the facts, the Court exercised its discretion in making a costs order against the Applicant. Justice Collier was of the opinion that the Applicant "was determined to pursue the matter to conclusion irrespective of the facts put before it". The Applicant's pursuit of the Bloomer respondents, who had innocently become involved in the matter, and "unreasonable rejection" of two offers of settlement ultimately resulted in a costs order against it.

This costs order acts as a warning to applicants to carefully consider the facts of their case and their response to pre-trial offers of settlement. The question – to settle or not to settle – is a question that should not be taken lightly.

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# IP Bite

## MAC v Target cosmetics settles for $1 million

***Make-Up Art Cosmetics Inc & Ors v Target Australia Pty Ltd*: Federal Court proceedings NSD1335/2012**

Make-Up Art Cosmetics Inc. (MAC) alleged that Target Australia Pty Ltd (Target) was selling fake MAC cosmetics. Proceedings were commenced in the Federal Court, but the case has been settled between the parties. Without admitting liability, Target has paid MAC cosmetics $1 million and issued corrective advertising online and in-store after settling the well-publicised legal case.

MAC and Estee Lauder Pty Ltd (the MAC brand is owned by the Estee Lauder Group) commenced proceedings against Target in September 2012, alleging that the chain store was selling fake MAC cosmetics. The cosmetics were sold in Target stores at a lower price than the genuine MAC products sold through authorised MAC retailers.

In Australia, MAC cosmetics are sold in the MAC online or freestanding stores and through department stores Myer and David Jones, both of whom have the rights to sell the products in this jurisdiction.

Target apparently purchased the cosmetics through a company in the United States and is now pursuing that supplier in the United States court system to determine the source of the products.

In addition to the $1 million settlement figure, Target published corrective advertising notices for a 30 day period on its website homepage, online store, Facebook page and catalogue as well as in-store cosmetic sections. Target also delivered up to MAC all of the cosmetics in question as well as related advertising and promotional materials. Any customers who purchased the products from Target are able to return the items to Target for a full refund.

A spokesperson for Target stressed in a statement that the settlement was not an admission of guilt or liability and the decision to settle was a commercial one given the costly and time consuming testing that would have been required to prove whether the products were authentic.

MAC has released its own advertisements thanking customers for their support stating that it "takes protecting you from fake products very seriously".

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# Stella McCartney steps off the runway to quash ST ELLA NEW YORK in trade mark opposition

***Stella McCartney Limited v Wong Kwaid Hua* [2013] ATMO 96**

## What you need to know

- Stella McCartney Limited (SML) succeeded in an opposition against an application for the ST ELLA NEW YORK Stylised trade mark.
- SML successfully argued that the trade mark was substantially identical or deceptively similar to its various STELLA trade marks for similar goods and services and the trade mark was therefore refused registration.
- However, SML failed to establish the other grounds of opposition, including that the use of NEW YORK within the trade mark was deceptive or that there was sufficient reputation in its STELLA trade marks that the use of the above trade mark would likely deceive and cause confusion.

Fate would have it that the maternal grandmothers of the Beatle, Sir Paul McCartney, and the photographer and animal rights activist, Linda McCartney, shared the first name Stella. It seems natural that the McCartneys' daughter would therefore be bequeathed this unassuming name, to do with it what she may. Stella Junior ultimately established an ubiquitous and eponymous fashion house, Stella McCartney Limited (SML). SML has recently succeeded in opposing an application by a Mr Wong Kwai Hua (Mr Wong) to register the following trade mark in Australia for cleaning and personal care products in class 3, leather goods and bags in class 18 and medical and beauty care services in class 44:

## The successful ground of opposition

Hearing Officer Thompson was persuaded by the SML's arguments that the above trade mark was deceptively similar to its prior trade mark registrations for or including STELLA (STELLA trade marks), that the goods covered by the STELLA Trade Marks (a broad range of personal care products in class 3) were similar to the goods covered by the Trade Mark and closely related to the services and, as a result, refused registration of the Trade Mark under section 44 of the *Trade Marks Act* 1995 (Act).

It is unsurprising that the Hearing Officer found the requisite similarity between the various class 3 goods covered by the respective trade marks and Mr Wong conceded that his services in class 44 were closely related to the goods covered by the STELLA Trade Marks.

In assessing whether the Trade Mark was deceptively similar to the STELLA Trade Marks, the Hearing Officer found credence in SML's arguments that:

- the marks are visually similar (being comprised of the same letters in the same order);
- the stylisation of the Trade Mark is largely irrelevant since the Opponent's trade marks are registered as plain word marks and therefore may be used in an infinite number of ways (including in the stylised text of the Trade Mark); and,
- if anything, the stylised text of the Trade Mark brings it closer to STELLA marks since the cross bar of the T gives the "impression that the abbreviation 'St' and the word 'Ella' are (and form) a unity".

As such, the Hearing Officer found a real tangible danger of deception or confusion sufficient to make out the section 44 ground of opposition.

Interestingly, SML also argued that as a result of people's (and notably Australian people's) tendency to be "lazy" in their pronunciation, "saint ella" could easily be slurred and misheard as the more familiar word "stella". The Hearing Officer did not specifically endorse this argument but it is an interesting argument nonetheless.

## Other grounds

The other grounds argued by SML (under sections 42, 43, 59 and 60 of the Act) were not established. Highlights of the parties' arguments and the Hearing Officer's comments in relation to these grounds are as follows:

- The Hearing Officer emphasised that when considering whether a trade mark is likely to deceive or cause confusion and thus fall foul of section 43 (in this case through the inclusion of "New York"), the onus lies with the opponent (SML in this case) to show the likelihood of deception or confusion, rather than with the applicant to demonstrate otherwise. SML's Internet searches in January 2013, which failed to reveal a link between Mr Wong's company and New York, were deemed "risky" as the results did not necessarily reflect the actual state of Mr Wong's company's operations as at the May 2010 priority date of the Trade Mark. In any event, Mr Wong was able to show that some products under the Trade Mark were made under licence by a US (and possibly New York) based company.
- SML honed in on a 2012 statement made by Mr Wong in the evidence that his company had no intention of using the Trade Mark in Australia in respect of perfumes and argued that the Trade Mark should therefore be refused under section 59 (on the basis that the applicant had no intention to use the trade mark). The Hearing Officer curtailed this argument, again noting that the relevant date was the May 2010 priority date of the application and that the evidence cited by SML shone no light on Mr Wong's actual intention some two years prior to making that statement. The Hearing Officer considered SML's arguments mere supposition and inference, which were insufficient to shift the onus to Mr Wong to establish his intention to use the trade mark at the relevant date.
- The Hearing Officer was not satisfied that the evidence demonstrated that the STELLA Trade Marks had acquired a sufficient reputation in Australia to ground action under section 60 (trade mark similar to one that has acquired a reputation in Australia) or section 42 (invoking the then *Trade Practices Act* 1974 prohibition on misleading or deceptive conduct and false representations) and refused to infer such reputation based on the international fame of SML and the Stella McCartney fashion house.

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# My planter rules: Federal Court weighs in on battle of the sugarcane planters

***Mizzi Family Holdings Pty Ltd v Morellini* [2013] FCA 1435**

## What you need to know

- The Federal Court has upheld allegations by the respondent, Mr Morellini (Respondent) that the applicant patentee, Mizzi Family Holdings Pty Ltd (Patentee), engaged in unjustifiable threats of patent infringement, in circumstances where the patent in suit was held valid but not infringed .

## What you need to do

- Patent owners should act with care when asserting their intellectual property rights to avoid engaging in conduct which may be unjustifiable threats of infringement.
- Parties to patent litigation proceedings should ensure that their evidence is prepared in a thorough and careful manner, so as to avoid internal ambiguities or inconsistencies as much as possible.

## Background

The Patent relates to a machine used to plant sugarcane. The Patentee alleged that the Respondent infringed the Patent by using a rival cane planting machine known as the "Morellini device".

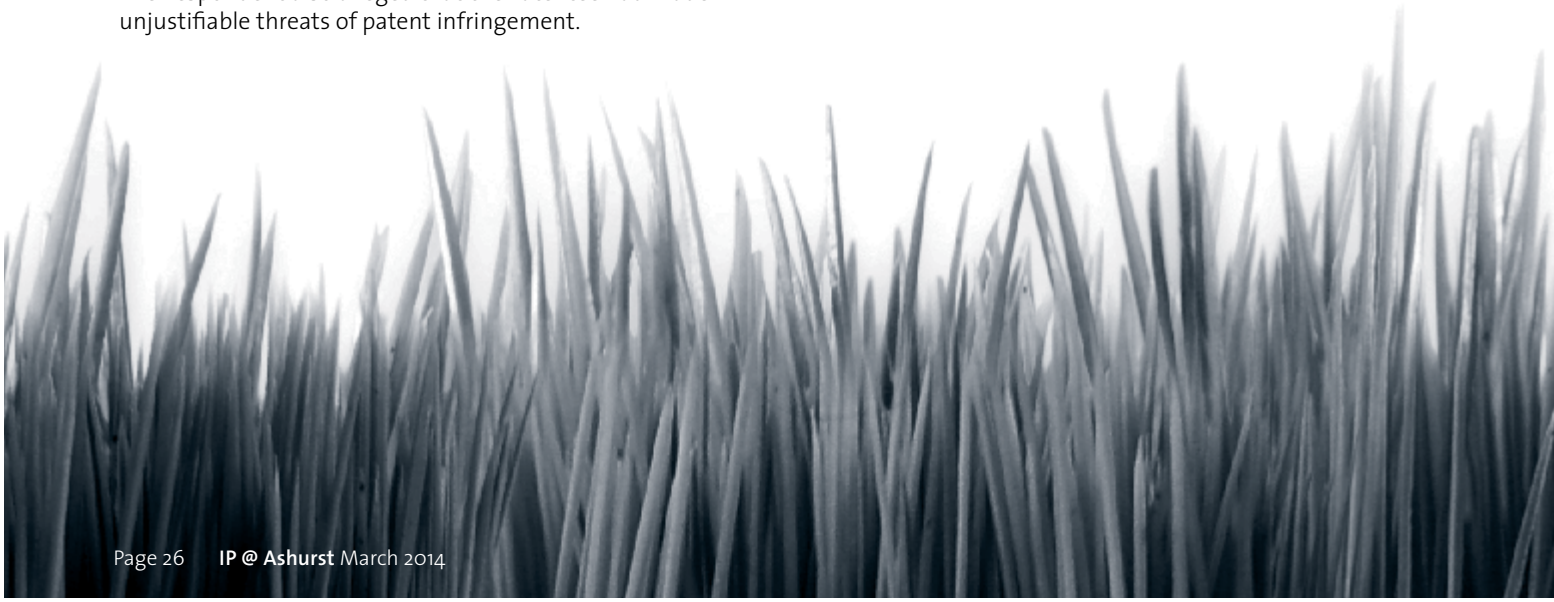
The Respondent in turn denied infringement, and cross-claimed for revocation of the Patent on the basis of lack of novelty, lack of innovative step, false suggestion, and non-compliance with section 40 of the *Patents Act 1990* (Cth). The Respondent also alleged that the Patentee had made unjustifiable threats of patent infringement.

## Construction of the Patent

The invention claimed in the Patent facilitated the planting of sugarcane "billets" (small lengths of sugarcane) into mounds of soil, instead of at the bottom of furrows as per the conventional method for planting sugarcane. The Patent specification identified a number of disadvantages with the conventional planting method, including that it did not allow the soil adjacent to the billets to be adequately warmed by the sun.

The Patent claimed a cane billet planter which formed a mound of soil **after** the cane billet was planted (ie the apparatus first deposited a cane billet into the ground, and then encased the billet with soil in the form of a shaped mound with a "relatively flat" top). The claimed apparatus was described in the Patent as forming mounds of soil in which each side of the mound was at an incline of between 20° to 60°.

Justice Dowsett held that the references to a "relatively flat" top and an angle of incline of between 20° to 60° simply described the shape of a mound which will effectively catch the sun. It was found that the specific angles of incline noted in the Patent did not purport to be directly linked to the heating effect of the sun at a given time of day.



## Validity

On this basis, his Honour then addressed the issue of validity, ultimately rejecting the Respondent's assertion that the Patent was invalid.

The Respondent's case on lack of novelty was based on two similar pre-existing planting devices, known as the "Roncato Device" and the "O'Grady Device" respectively. The evidence relied on by the Respondent was ambiguous and inconsistent as to whether these devices created a mound before or after the cane billet had been planted. Justice Dowsett noted that the Patent clearly taught the formation of a mound **after** planting. Due in part to the ambiguities and inconsistencies in the evidence relied on by the Respondent, Justice Dowsett held that there was a significant difference in planting methodology as between the Roncato and O'Grady Devices, and the invention described in the Patent. Accordingly, the Respondent failed to prove that the Patent lacked novelty.

Justice Dowsett also rejected the Respondent's claims of lack of innovative step, lack of clarity and false suggestion on the basis of the construction of the Patent specification and claims he adopted.

## Infringement

Based on evidence of the operation of the Morellini device, Justice Dowsett held that the Morellini device did **not** infringe the Patent. His Honour concluded that the Morellini device did not produce mounds of the shape described in the Patent – that is, with a relatively flat top or with sides inclined at angles of between 20° to 60°.

## Unjustifiable threats of infringement

Having found that the Morellini device did not infringe the Patent, his Honour held that certain assertions made by the Patentee constituted unjustifiable threats of infringement. In particular, the Patentee had:

- alleged that use by another party of the Morellini device constituted an infringement of the Patentee's rights, by publishing a notice in an industry publication together with an article titled "Infringement Danger"; and
- demanded royalties from a third party who had used a device similar to the Morellini device, on the basis that such device infringed the Patent.

His Honour noted that Mr Mizzi of the Patentee demonstrated "an evasiveness" during cross-examination which "strongly suggested" a close involvement in the conduct amounting to unjustifiable threats as described above. Justice Dowsett held that there can be "no doubt" that the conduct described above was designed to threaten infringement proceedings.

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# PROSECCO rejected as a geographical indication in Australia

***Winemakers' Federation of Australia v European Commission* [2013] ATMOGI 1**

## What you need to know

- The European Commission (EC) applied for the word PROSECCO to be listed on the Register of Protected Geographical Indications and Other Terms as a geographical indication (GI) for Italy. Under this classification, only wines originating from a restricted area in Italy would be able to be use the term PROSECCO.
- The Winemakers' Federation of Australia (WFA) objected to this classification noting that PROSECCO is the name of a grape variety, and others have a legitimate reason to use the term.
- The Registrar of Trade Marks upheld the objection and rejected the application.
- A GI can act as a strong branding tool for a product as it gives consumers assurances as to the quality and origin of the goods. Wine growers and manufacturers may seek this designation in order to prohibit an unrelated product from profiting from the name/reputation of a geographic region when it does not have any such association.

## What you need to do

- While the term PROSECCO can still be used by reference to a grape variety, it is also important that the label clearly indicates the country of origin. Wine growers and manufacturers should be aware of their continued obligations under *Australian Consumer Law* not to mislead or deceive consumers in respect of the origin of their wine, or otherwise.
- Applications to register a GI in Australia are made through IP Australia as a certification trade mark, or (in the case of wines only) the Wine Australia Corporation.

## Procedural history

On 1 April 2010, the EC made an application under the *Wine Australia Corporation Act 1980* (Act) and its Regulations for the term PROSECCO to be listed on the Register of Protected Geographical Indications and Other Terms as a GI for Italy. On 3 April 2012 (after submissions opened), the WFA objected to this classification. The Deputy Registrar of Trade Marks (Registrar) heard this matter on 13 September 2013. On 22 November 2013, the Registrar upheld the objection and rejected EC's application.

While the EC has a right to appeal the decision under section 40RF of the Act, no appeal has been lodged currently.

## Ground of objection

The Act and Regulations dictate the application process for a GI, and the relevant grounds of objections, including that:

> "A person may object to the determination of a proposed item on the ground that the proposed item is used in Australia: (a) as a common name of a type or style of wine; or (b) as the name of a variety of grapes" (Reg 58(5))

While WFA cited Regulation 58(5) as a whole as its ground of objection, in written submissions, it confined its objection to PROSECCO being the name of a grape variety and being used in Australia in this way for many years. It was therefore not necessary for the Registrar to resolve the question on whether PROSECCO signifies a generic product or is the "common name" of a style of wine.

The regulation of wines and GIs is also supplemented by the Agreement between Australia and the European Community on Trade in Wine (Wine Agreement) (Italy being a member of the European Union) and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

## WFA's evidence

The Registrar held that WFA must prove relevant use before 1 April 2010 (the date of the application).

The Registrar was convinced by WFA's evidence of use:

- that in the initial Wine Agreement (dated 1994) PROSECCO was referred to as the name of a grape variety (this was later excluded in the 2010 Agreement);
- that commercial quantities of wine made from Prosecco grapes were available in Australia since 2004, with the availability of the Prosecco plant material dating back to 1997. With this comes a need to use the name on the wine label;
- of the establishment of a regional tourism route "the Road to Prosecco" in King Valley, Victoria; and
- of PROSECCO as the name of a grape variety internationally until 2009.

The Registrar looked at examples of use submitted by WFA and held that the reference to PROSECCO was limited to grape variety and it was clearly labelled that the wine was made in Australia. The Registrar was not satisfied that any of the use was misleading in terms of *Australian Consumer Law*.

## Decision

The Registrar considered that if PROSECCO was entered onto the Register as a GI the effect would be to prevent Australian producers from continuing to use it as the name of a grape variety. The Registrar held that the use of the term PROSECCO as the name of a grape variety in Australia necessitates the need to reject the GI application.

The EC requested that despite rejecting the application, the Registrar exercise his discretion under Regulation 68 to implement the GI (even if the objection is upheld) if it is reasonable according to Australia's international obligations. However, the obligations do not extend to where the term is the customary name of a grape variety in a jurisdiction. Hence, the Registrar declined to exercise the discretion available to him.

The Registrar was not entitled under the Regulations to make an award of costs.

While currently it does not look like the term PROSECCO will be adding itself to the exclusive list of GIs protected in Australia such as CHAMPAGNE, ROQUEFORT, RUTHERGLEN, COONAWARRA, and PARMA, we will need to watch this space to see if the decision is appealed.

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# ACCC cracks down on Harvey Norman franchisees for misleading consumers regarding consumer guarantees

***ACCC v HP Superstore Pty Ltd* [2013] FCA 1317**
***ACCC v Salecomp Pty Ltd* [2013] FCA 1316**
***ACCC v Moonah Superstore Pty Ltd* [2013] FCA 1314**
***ACCC v Launceston Superstore Pty Ltd* [2013] FCA 1315**
***ACCC v Camavit Pty Ltd* [2013] FCA 1397**

In five separate cases late last year, the Federal Court ordered five Harvey Norman franchisees to pay civil pecuniary penalties totalling $148,000 for making false or misleading representations to consumers regarding consumer guarantee rights. In each case, the franchisee admitted that it engaged in conduct that contravened sections 18 and 29(1)(m) of the *Australian Consumer Law* (ACL), being Schedule 2 of the *Competition and Consumer Act 2010* (Cth) (CCA), and agreed on both the facts and the orders.

## What you need to know

- Misleading conduct in relation to consumer guarantees is a current enforcement priority of the ACCC.
- In each of these cases, the Harvey Norman franchisee admitted to having made representations to consumers which were false or misleading regarding consumer guarantee rights.
- While the Court did not find that the conduct in any case was deliberate, each franchisee was ordered to pay a pecuniary penalty of either $28,000 or $32,000, to display in-store corrective notices and to implement a consumer law compliance program.

## What you need to do

- It is essential that businesses have clear and thorough compliance training and policies in place. In particular, for any retailer or business that has staff who deal directly with consumers, the staff must be fully aware of the consumer guarantee rights and must act in accordance with those rights.

> While the Court did not find that the conduct in any case was deliberate, each franchisee was ordered to pay a pecuniary penalty.

## Misrepresentations

The allegations by the ACCC varied in each case but they included misrepresentations that the relevant franchisee had no obligation to provide:

- a refund for faulty goods supplied;
- a remedy independently of the relevant product manufacturer; or
- remedies for damaged goods unless notified within a short specified time from receipt of the goods.

For example, in the case against Launceston Superstore Pty Ltd, one of the representations included the following written statement on a receipt: "No claims will be honoured on damaged goods unless notified within 24 hours of delivery or pick-up". Other representations in the cases comprised oral statements from employees of the franchisees to consumers such as "You will need to contact [the manufacturer]" and "We cannot give you a refund or replacement. It is not within our company policy. We can only send the [goods] away for repair again".

The CCA provides that any conduct engaged in or on behalf of a body corporate by an employee or agent of the body corporate within the scope of his or her actual or apparent authority is taken for the purposes of the ACL to have been engaged in by the body corporate as well.

## The ACL and consumer guarantees

The ACL provides a number of statutory guarantees in relation to the supply of goods to consumers. These include a guarantee that:

- goods will be of acceptable quality;
- goods will be fit for any disclosed purpose;
- goods will match the description under which they are sold;
- goods will have spare parts available for a reasonable time; and
- all express warranties offered will be honoured.

If a product develops a major fault, consumers have a right to replacement or refund from the supplier. If a product develops a minor fault, a consumer has the right to have the product remedied, at the supplier's discretion, within a reasonable time. If the supplier does not remedy the product, the consumer can either reject the product and obtain a refund or have the problem fixed and recover their reasonable costs from the supplier.

## Penalty assessment

The ACCC sought declaratory and injunctive relief, pecuniary penalties and other orders. Each franchisee was ordered to pay a pecuniary penalty of either $28,000 or $32,000.

## Court orders

In addition to the pecuniary penalties, the Court ordered in each case that the franchisee be restrained for a period of three years from making the relevant misrepresentations. In addition, the franchisees were ordered to:

- prominently display a copy of the summary of consumer rights under the ACL at points of sale for a period of 3 years; and
- implement compliance programs.

## The ACCC's focus on consumer guarantees

In a recent media release, the ACCC has stated that misleading conduct in relation to consumer guarantees is an enforcement priority and that the penalties in these cases send a message to businesses not to mislead consumers about their rights to repair, replacement or refund for faulty goods under the ACL.

In each case the Court stated that retailers may need to incur costs to maintain a culture of compliance with the ACL, including by supervision of staff. An appropriate penalty would take into account the need to deter other retailers from encouraging, permitting or risking similar contraventions of the ACL.

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# A story about BUGATTI, BUGATCHI and a man named UOMO

***Bugatti GmbH v Shine Forever Men Pty Ltd* [2013] FCA 1116**

## What you need to know

- Where a distributor or retailer imports and sells goods bearing a trade mark applied overseas by the Australian trade mark owner, the importation and sale of the goods in Australia will likely involve "use" of the trade mark in Australia by the distributor, retailer and the trade mark owner.
- The pronunciation of words in trade marks may be a relevant factor where an allegation of trade mark infringement is brought on the basis of deceptive similarity, but the Court will not be assisted in such cases by a meticulous aural comparison between the marks.

In this case, Bugatti GmbH (Bugatti) alleged that the Respondent, Shine Forever Men Pty Ltd (Shine Forever), had infringed its trade mark registrations for the trade mark BUGATTI.

Shine Forever was a distributor of products bearing the trade marks BUGATCHI and BUGATCHI UOMO and operated a retail store named BUGATCHI UOMO in Melbourne. The registration of the BUGATCHI UOMO trade mark in Australia is being sought by Bugatchi Uomo Apparel Inc (BUA) (but the application is opposed and Court action is pending).

## Shine Forever's "use" of BUGATCHI UOMO

Shine Forever argued that it could not be liable for trade mark infringement because it had not "used" the mark BUGATCHI UOMO in Australia as a trade mark. Shine Forever argued that BUA had designed and supplied the goods bearing the mark, which BUA had applied to the goods overseas, before they had been imported into Australia and that Shine Forever only used the mark under the direction of BUA.

The Federal Court dismissed Shine Forever's argument, holding that a trade mark can be "used" by both the trade mark owner, and a distributor (or retailer) of goods bearing the trade mark. As Shine Forever had imported, marketed and sold goods under, or by reference to, the BUGATCHI UOMO mark, Justice Tracey held that Shine Forever had "used" that trade mark in Australia.

## Deceptive similarity

Shine Forever also argued that the BUGATCHI UOMO mark was not deceptively similar to the BUGATTI trade mark, on the basis of the length and the number of characters and words in each of the marks, the double "TT" in the BUGATTI mark, and the "CHI" in the BUGATCHI UOMO mark. Shine Forever also argued that the marks were not deceptively similar due to the differences in pronunciation of "TTI" in BUGATTI and "CHI" BUGATCHI and due to the different numbers of syllables and words in each mark. Shine Forever submitted that the differences in "pronunciation, intonation, rhythm and length" prevented any perception of aural similarity arising (or if there were any relevant similarities, they were not material).

Justice Tracey noted that confusion may arise even where the trade marks in issue are not substantially identical. For that reason, his Honour explained that the aural and visual distinctions that Shine Forever sought to draw, provided the Court with little, if any, assistance in determining whether or not the two trade marks were deceptively similar, such that the use of the BUGATCHI UOMO trade mark gave rise to a real and tangible risk of confusion.

Justice Tracey noted that phonetically different words in two trade marks may cause confusion if the pronunciation of each word is characterised by a similar sound. His Honour found that the BUGATTI and BUGATCHI UOMO trade mark were similar in a number of respects – they shared the same first two syllables in the first word and the "TTI" and "CHI" syllable were held to be closely visually and aurally similar. Further, the Court held that BUGATTI was the only (and essential) word in the BUGATTI trade mark and given the similarity that it shared with the word BUGATCHI, the introduction of the word UOMO was not sufficient to prevent confusion arising as a result of the use of the BUGATCHI UOMO trade mark.

Justice Tracey also noted that the "idea" of a European or Italian fashion brand would be conjured up in the minds of consumers as a result of the use of either trade mark.

The Court found that given the visual and aural similarity of the two trade marks, any use by Shine Forever of the BUGATCHI UOMO trade mark in Australia would cause consumers to wonder (or be left in doubt about) whether or not it might be the case that goods bearing the BUGATCHI UOMO trade mark came from the same source as goods bearing the BUGATTI trade mark. As a consequence, Bugatti successfully established trade mark infringement on the basis of deceptive similarity.

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# IP Bite

***Australian Competition and Consumer Commission v Scoopon Pty Ltd (ACN 149 779 948)* QUD 402 of 2013**

On 3 July 2013, the ACCC commenced proceedings against major group buying platform Scoopon Pty Ltd (Scoopon) for several alleged contraventions of the *Australian Consumer Law* (ACL). Group buying websites follow a recent marketing model in which site operators negotiate deals with businesses and advertise their goods or services to consumers in the form of heavily discounted vouchers. The ACCC alleged that in the course of promoting and supplying its services, Scoopon made false and misleading representations to businesses and consumers through its website, customer service staff and various promotional emails.

Specifically, the ACCC alleged that Scoopon:

- misled consumers about the price of goods;
- falsely represented to consumers that the consumer guarantee provisions relating to refunds and warranties did not apply in the final two weeks of the voucher's validity period;
- represented to businesses that running a deal with Scoopon involved no financial cost or risk above a disclosed fee when in fact businesses were charged for any refunded vouchers; and
- represented to a business, without reasonable grounds, that 30% of vouchers sold would not be redeemed.

In December 2013, Scoopon and the ACCC agreed to settle this dispute. The Federal Court of Australia declared by consent that such conduct was misleading and deceptive in contravention of the ACL. The parties also agreed to orders that Scoopon:

- pay a pecuniary penalty of $1 million (and $50, 000 of the ACCC's costs);
- be restrained from making similar misleading representations for a period of 2 years;
- develop and enhance its existing compliance program; and
- prepare and hold an educational seminar on ACL compliance issues for other group buying organisations.

This penalty is a reminder to online businesses that their obligations under the ACL are the same as those of traditional retailers. Since digital and online markets are currently a priority for the ACCC, businesses operating on the internet should ensure that their internal compliance policies are regularly updated and enforced.

Since the contravening conduct occurred, the Association of Data-driven Marketing and Advertising (ADMA) released the Australian Group Buying Code of Conduct (Code) to address these precise issues. As the Code contains an independent complaint-handling process managed by the ADMA, it will be interesting to see whether the ACCC will take further action in the group buying sector.

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# Patent relating to the assessment of competency or qualifications of individuals with respect to recognised standards held to be a manner of manufacture

***RPL Central Pty Ltd v Commissioner of Patents* [2013] FCA 871**

## What you need to know

- On 30 August 2013, Justice Middleton of the Federal Court of Australia held that a patent relating to the assessment of competency or qualifications of individuals with respect to recognised standards is a manner of manufacture.
- The transfer and transformation of data within a computer may be a sufficient physical effect to give rise to an "artificially created state of affairs".
- Recent decisions on computer-related inventions indicate that the Federal Court approaches considerations of patentability of methods implemented using a computer on a case-by-case basis.

## The patent in issue

The specification of the patent refers to the system for Recognition of Prior Learning (RPL) in the Australian Vocational Education and Training Sector (VET). The patent involves the use of a server computer (the "assessment server", which is configured to gather information for the assessment of an individual's competency by reference to a recognised standard) and a remote server computer (which contains information relating to the recognised standards). According to the patent, the system automatically generates questions (in the form of a "wizard" or other similar user interface) to candidates based on the recognised standards.

## The parties' submissions

The principal issue in the proceeding was whether the claimed invention constitutes a manner of manufacture.

In Australia, the term "manufacture" refers to an artificially created state of affairs of utility in practical affairs and whose significance is economic. In the context of computer-related inventions, a distinction is drawn between mere "intellectual information" (which is not patentable subject matter) and programs that have the effect of controlling a computer to operate in a particular way (which may be patentable).

The claims in issue were characterised by the Commissioner as being directed to a mere business plan or scheme. In essence, the Commissioner submitted that more than mere use or operation of a computer is required to make a business, commercial or financial scheme patentable. The Commissioner submitted that *any* normal operation of a computer results in a change in state or information in a part of a machine (eg, the writing of information to a file). Accordingly, the Commissioner submitted that, for a computer-related invention to be patentable, more than a mere change in state or information in a part of a machine is necessary to establish the requisite physical effect. In particular, the Commissioner submitted that the physical effect required must be "significant" in that it is concrete, and also "central" to the purpose or operation of the method in a substantial way.

Conversely, RPL submitted that the Commissioner took the wrong approach in undertaking the manner of manufacture analysis. It submitted that the Commissioner's approach goes further than that required by the authorities, and imposed a new and additional test:

> "whether the 'concrete effect or phenomenon or manifestation or transformation' referred to in *Grant* is 'significant both in that it is concrete but also that it is central to the purpose or operation of the claimed process or otherwise arises from the combination of steps of the method in a substantial way'".

## Findings by Justice Middleton

After considering the authorities relevant to the assessment of patentable subject matter, Justice Middleton concluded that:

- The invention the subject of the patent produces a useful result – it overcomes difficulties involved in identifying relevant education providers, and enables the recognition of prior learning.
- Such an invention is in the field of economic endeavour – the educational sector of the economy.
- The invention satisfies the "vendible" requirement of the vendible product test articulated in *National Research Development Corporation v Commission of Patents* ("NRDC case") [1959] HCA67 – it has utility in practical affairs, and, given its application to the education sector, is therefore of an industrial, commercial or trading character.
- The invention is a "product", in that it gives rise to an "artificially created state of affairs". Specifically, Justice Middleton held that the invention gives rise to a physical phenomenon in which a new and useful effect may be observed, in the sense of a concrete effect or phenomenon or manifestation or transformation. In this regard, Justice Middleton considered that there are "a number of physical effects which occur in implementing the invention defined by the claims", including the transfer and transformation of data at each step in the claimed process.

Justice Middleton also rejected the Commissioner's submission that the requisite physical effect must be "significant" and "central" to the operation of the method, and noted that there are no binding Australian decisions which expressly import any such requirement of substantiality or centrality of physical effect. His Honour considered, but refused to follow, recent US decisions which do appear to express a similar type of requirement. Justice Middleton also cautioned against subtracting from the invention any aspect of computer implementation, and then determining whether what remains is properly patentable subject matter.

## What next?

The decision in this case comes after two recent decisions of Justice Emmett (as he then was; now Justice of Appeals Emmett of the New South Wales Court of Appeal) in *Research Affiliates LLC v Commissioner of Patents* [2013] FCA 71 and *Dynamite Games Pty Ltd v Aruze Gaming Australia Pty Ltd* (2013) 100 IPR 86; [2013] FCA 163 (as reported in the June 2013 edition of *IP @ Ashurst*). Both judgments were delivered after judgment was reserved in this proceeding.

The findings by Justice Emmett in those cases contradict the decision reached by Justice Middleton in this *RPL* proceeding. Whereas Justice Middleton considered that the writing of files was a sufficient "physical effect" to satisfy the requirements of patentability, Justice Emmett held otherwise.

Justice Middleton referred to Justice Emmett's decisions in *Research Affiliates* and *Dynamite Games* at the end of his judgment in *RPL*. Justice Middleton sought to distinguish his decision from Justice Emmett's decision in *Research Affiliates* on the bases that:

- the only physical result generated in the *Research Affiliates* patent was the creation of a computer file containing an index;
- the specification contained virtually no substantive detail about how the claimed method was to be implemented by a computer (which was not the case for RPL's patent).

The decision of Justice Emmett in *Research Affiliates* was appealed to the Full Federal Court, and was heard on 18 November 2013, with judgment yet to be handed down. Given the seemingly divergent opinions of Justice Emmett and Justice Middleton in these recent decisions, it will be interesting to see whether the Full Court is able to provide guidance on the principles applicable to this issue.

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# IP Bite

## Fair game: ACCC concerned about in-app purchases following sweep of children's game apps

The Australian Competition and Consumer Commission (ACCC) has conducted a sweep of over 340 "free" app games in the Google Play and Apple App Stores. The ACCC is particularly concerned about in-app purchases, such as buying extra lives in a game or paying to access additional content.

Over 75% of apps on one platform made no or, in the ACCC's view, inadequate disclosure regarding in-app purchases, and over 80% of apps on both platforms provided no information about how to prevent inadvertent in-app purchases.

The ACCC has recognised the need for guidance to help businesses avoid contravention of the ACL, and supports the draft principles for the online and app-based game industry released by the United Kingdom Office of Fair Trading (UK OFT). These principles emphasise that:

- material information and in-app purchases should be clearly, accurately and prominently displayed upfront;
- games should not mislead consumers regarding in-app purchases; and
- payments should not be taken unless authorisation is given.

The UK OFT released final principles in February 2014, maintaining a similar focus with some minor changes, and have required compliance in the UK by 1 April 2014. The ACCC is yet to comment on the final principles.

The UK OFT principles note that responsibility for compliance lies primarily with app developers (for gameplay and disclosures), platform operators (for disclosures and payment-taking) and businesses that take payments. The ACCC has signalled to both app developers and platform operators that it is continuing to investigate concerns about misleading and deceptive conduct in relation to a number of apps, and may take enforcement action for contraventions of the *Australian Consumer Law*.

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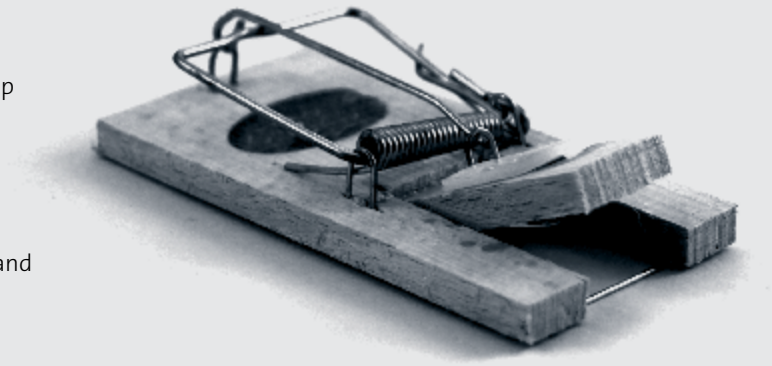

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