

# Damages for breach of copyright — does the punishment fit the crime? CASE NOTE: *Facton Ltd v Rifai Fashions Pty Ltd* [2012] FCAFC 9

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In *Facton Ltd v Rifai Fashions Pty Ltd*<sup>1</sup> (*Facton v Rifai*), the Full Court of the Federal Court of Australia made a number of important findings with respect to the operation of ss 115(2) and (4) of the Copyright Act 1968 (Cth) (Act).

In particular, the court held that a party who succeeds in an action for breach of copyright under s 115(1) of the Act, which enlivens an entitlement to damages for breach of copyright:

- (a) must make an election to seek either damages or an account of profits under s 115(2), but cannot seek to recover both (confirming the courts' traditional approach);
- (b) can only claim *additional damages* under s 115(4) if damages — but not an account of profits — are awarded under s 115(2); and
- (c) is not required to show that the wrongdoer's conduct was malicious or spiteful before becoming entitled to recover *additional damages* under s 115(4).

The Full Court also overturned the trial judge's finding that a party must lead evidence to establish the value of its reputation as a starting point before reputational damages will be awarded for breach of copyright. However, given the Full Court awarded reputational damages of only \$5,000 in this case, lawyers should advise their clients to lead expert evidence as to the value of their reputation or brand to maximise the recovery of reputational damages at trial.

## Facts

Rifai Fashions Pty Ltd (Rifai) imported into Australia counterfeit fashion clothing under the "G-Star" brand from Thailand and China.

Facton Ltd, G-Star International BV and G-Star Australia Pty Ltd (applicants) own various interests in the G-Star brand. For example, Facton is the registered owner of various Australian G-Star trade marks, G-Star International BV is the designer and distributor of G-Star branded clothing, and the owner of the copyright

in G-Star logos, and G-Star Australia Pty Ltd is the exclusive distributor in Australia of G-Star products.

In about September 2009, Rifai imported 2,857 items of counterfeit G-Star branded clothing, which it purchased for \$35,000. These goods were seized by Customs and destroyed.

Shortly thereafter, the applicants' solicitors sought and obtained undertakings from Rifai to the effect that Rifai would cease importing, marketing, exhibiting in public, or offering for sale the infringing clothing. However, despite the undertakings, Rifai continued to offer for sale and sell the infringing clothing.

In December 2009, the applicants obtained a search order and confiscated 340 items of G-Star branded products from Rifai's premises, and commenced proceedings against Rifai and Mr Rifai. The applicants alleged breach of copyright, infringements of the Trade Marks Act 1995 (Cth), the Fair Trading Act 1987 (NSW), the Trade Practices Act 1974 (Cth), and the tort of passing off.

Prior to trial, Rifai denied all liability and put the applicants to proof of their claims. On the day before the trial, Mr Rifai served an affidavit in which he swore, falsely, that he was unaware that the goods he purchased were counterfeit.

## Trial at first instance before Bromberg J

At the commencement of the trial, Rifai and Mr Rifai reversed their position and admitted liability for the claims made against them, and the trial proceeded on the question of damages only.

The trial judge, Bromberg J, awarded the applicants \$9,213 by way of compensatory damages under s 115(2) of the Copyright Act, and \$11,000 by way of additional damages under s 115(4) of the Copyright Act. The court did not award damages for loss of reputation.

## Law

Section 115 of the Copyright Act relevantly provides:

- (2) Subject to this Act, the owner of a copyright may bring an action for an infringement of the copyright.

- (3) Subject to this Act, the relief that a court may grant in an action for an infringement of copyright includes an injunction (subject to such terms, if any, as the court thinks fit) and either damages or an account of profits.
- (4) ...
- (5) Where, in an action under this section:
- (a) an infringement of copyright is established; and
  - (b) the court is satisfied that it is proper to do so, having regard to:
    - (i) the flagrancy of the infringement; and
    - (ia) the need to deter similar infringements of copyright; and
    - (ib) the conduct of the defendant after the act constituting the infringement or, if relevant, after the defendant was informed that the defendant had allegedly infringed the plaintiff's copyright; and
    - (ii) whether the infringement involved the conversion of a work or other subject-matter from hardcopy or analog form into digital or other electronic machine-readable form; and
    - (iii) any benefit shown to have accrued to the defendant by reason of the infringement; and
    - (iv) all other relevant matters;
- the court may, in assessing damages for the infringement, award such additional damages as it considers appropriate in the circumstances.

### The applicants' contentions on appeal

On appeal, the applicants argued among other things that, contrary to the findings of the trial judge:

- (a) they were entitled to general damages for loss of reputation pursuant to s 115(2) of the Copyright Act; and
- (b) they were entitled to \$200,000 in *additional damages* under s 115(4).

In the Full Court, Lander and Gordon JJ in majority delivered a joint judgment. Gilmour J in minority delivered a judgment with similar conclusions but based on different reasons. While the applicants succeeded on appeal in establishing an entitlement to damages for loss of reputation and additional damages (as explained below), they would have been disappointed in the amount of the damages awarded.

### Damages for loss of reputation under s 115(2)

Compensatory damages under s 115(2) may be awarded if the owner establishes that the infringement of copyright has caused depreciation in the copyright as a chose in action.<sup>2</sup>

At first instance, the trial judge declined to award damages under s 115(2) for loss of reputation. This was because the applicants failed to lead evidence as to the value of their reputation. The trial judge stated that:

In circumstances where the applicants could have adduced, but have failed to adduce, evidence to demonstrate the value of each of their goodwill or reputation, I am not prepared to wholly speculate as to that value.

The majority determined this approach to be erroneous and stated that any difficulty in quantifying the value of the damage to the applicants' reputation should not be a bar to making a damages award.

Interestingly, Lander and Gordon JJ stated that they could not think of any further evidence that the applicants could have adduced in relation to the damage to their reputation. However, it appears that the trial judge had in mind expert evidence "as to the value of the goodwill held by G-Star Australia and as to the commercial value of the G-Star Logos as a chose in action."<sup>3</sup> Apparently the applicants did not lead expert evidence as to the dollar value of their reputation at trial.

In considering the applicants' claim for reputational damage, Lander and Gordon JJ said at [25] that the evidence did justify an award of reputational damages under s 115(2). This was because the applicants had established a substantial, exclusive and valuable reputation in their trademarks, brand and goods; and the brand would be diminished by the sale of the counterfeit items and the goods would no longer be considered exclusive.

Despite these findings, the Full Court determined that the value of the damage to the applicants' reputation was only \$5,000.

### Additional damages pursuant to s 115(4)

In their joint judgment, Lander and Gordon JJ explained<sup>4</sup> that in order to enliven an entitlement to *additional damages*, the court must first order that compensatory damages are payable, as opposed to an account of profits, under s 115(2). The majority stated that the purpose of a damages award under s 115(2) was compensatory in nature and was designed to compensate the plaintiff for the loss which the plaintiff has suffered as a result of the defendant's breach. On the other hand, the purpose of an account of profits is to allow the copyright owner to recover the net gain made by the infringer of the copyright. The owner of the copyright can seek to recover one or the other but not both.

Accordingly, the primary judge's award of \$11,000 by way of additional damages under s 115(4), calculated by reference to the profits which Rifai made on its sales of counterfeit goods (ie which was akin to an account of profits), was set aside.

While damages under s 115(2) are compensatory, those under s 115(4) are "other than compensatory" and are of a punitive kind.<sup>5</sup> The majority stated that the matters in s 115(4) are of a kind that are taken into account in determining whether a party is entitled to aggravated or exemplary damages at common law.<sup>6</sup>

The majority also determined, contrary to the findings of the trial judge, that in order for an entitlement to *additional damages* under s 115(4) to crystallise, there is no requirement for the conduct in question to be malicious or spiteful — a deliberate and flagrant disregard of another's legal rights is sufficient. This was an important determination. If the trial judge's finding — that malicious or spiteful conduct was required to enliven an entitlement to additional damages — had stood, it had the potential to seriously curtail the ability of a party to obtain additional damages under s 115(4).

### The additional damages triggers

All members of the Full Court agreed that the conduct of Rifai (and Mr Rifai) identified by Gilmour J<sup>7</sup> in his minority judgment triggered an entitlement to additional damages under s 115(4). This conduct was:

- (a) acquiring and selling goods known to be counterfeit;
- (b) giving false undertakings;
- (c) continuing to trade in goods knowing them to be counterfeit after giving undertakings not to do so;
- (d) denying liability in subsequent legal proceedings, putting the plaintiffs to proof and ignoring numerous Court orders to file evidence and submissions; and
- (e) giving false sworn evidence that it was not known that the goods were counterfeit.

The applicants sought \$500,000 at trial, reduced to \$200,000 on appeal, by way of additional damages. The majority rejected this submission out of hand because they found it was disproportionate to the damages suffered.

All members of the Full Court noted that because this aspect of the award is meant to act as punishment, the individual circumstances of the respondent must be taken into account. Gilmour J noted that the financial position of Mr Rifai was "perilous".<sup>8</sup>

Taking all these matters into account, including the primary judge's assessment that Rifai made an ill-gotten gain of \$11,000, Lander and Gordon JJ fixed additional damages at \$25,000.

### Practical implications and actions

There are a number of important practical implications of this decision. The first is that to enliven an entitlement to additional damages under s 115(4), the party whose copyright is breached must first obtain a damages award under s 115(2). If a successful party elects, on the other hand, to recover based on an account of profits then that party will have no entitlement to additional damages. This choice will therefore require careful assessment at trial.

Second, if the wronged party is successful in obtaining an order for *additional damages* under s 115(4), then the quantum recoverable may be significantly reduced if the financial position of the infringer is weak. In this case, on appeal, the Appellants sought \$200,000 (reduced from the \$500,000 which they sought at trial) but were only awarded \$25,000.

Finally, this case highlights the importance of leading evidence as to the value of a party's reputation in order to recover significant reputational damages under s 115(2). While such evidence is not required to trigger a court's obligation to assess reputational damage, this case suggests that without such evidence a court is likely to take a very conservative approach to its assessment of the reputational damage caused to the wronged party (in this case awarding reputational damage of only \$5,000).



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### Footnotes

1. *Facton Ltd v Rifai Fashions Pty Ltd* [2012] FCAFC 9.
2. Above, n 1 at [25].
3. *Facton Ltd v Rifai Fashions Pty Ltd* (2011) 91 IPR 109; [2011] FCA 290; BC201101621 (30 March 2011) per Bromberg J at [30].
4. Above, n 1 at [31].
5. Above, n 1 at [33].
6. Above, n 1 at [33].
7. Above, n 1 at [82].
8. Above, n 1 at [86].