

FEDERAL COURT OF AUSTRALIA

Seiko Epson Corporation v Calidad Pty Ltd [2018] FCA 104

File number: NSD 1032 of 2015

Judge: **BURLEY J**

Date of judgment: 16 February 2018

Catchwords: **COSTS** – form of declaratory relief – whether general award or issues based approach is best method – award of costs according to success on separate grounds – appropriate apportionment

Legislation: *Competition and Consumer Act 2010* (Cth) Schedule 2, ss 18,29
Federal Court of Australia Act 1976 (Cth)
Trade Marks Act 1995 (Cth), ss145 and 148

Cases cited: *Ainsworth v Criminal Justice Commission* (1991) 175 CLR 564
Crane v Gething [2000] FCA 45; (2000) 169 ALR 727
Hislop v Paltar Petroleum Limited (No 4) [2017] FCA 1632
Idenix Pharmaceuticals LLC v Gilead Sciences Pty Ltd (No 2) [2018] FCAFC 7
Les Laboratoires Servier v Apotex Pty Ltd [2016] FCAFC 27; (2016) 247 FCR 61
Seiko Epson Corporation v Calidad Pty Ltd [2017] FCA 1403

Date of hearing: 20 December 2017

Registry: New South Wales

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Sub-area: Patents and associated Statutes

Category: Catchwords

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ORDERS

NSD 1032 of 2015

BETWEEN: **SEIKO EPSON CORPORATION**
First Applicant

EPSON AUSTRALIA PTY LTD ACN 002 625 783
Second Applicant

AND: **CALIDAD PTY LTD ACN 002758 312**
First Respondent

CALIDAD HOLDINGS PTY LTD ACN 002 105 562
Second Respondent

CALIDAD DISTRIBUTORS PTY LTD ACN 060 504 234
Third Respondent

BUSHTA TRUST REG
Fourth Respondent

JUDGE: **BURLEY J**

DATE OF ORDER: **16 FEBRUARY 2018**

THE COURT DECLARES:

1. Prior to April 2016, but not thereafter, the Respondents have, without the licence or authority of the First Applicant, infringed claim 1 of each of Australian Patent Numbers Australian Patent Numbers 2009233643 or 20123219239 (**Patents**) by, within the Patent Area (as that term is defined in the Patents Act 1990 (Cth)):

selling, or offering to sell the printer cartridges within Categories 4, 5, 6, 7 and B identified in the table in Annexure A to these Orders (**the Infringing Cartridges**);

importing those cartridges; and

keeping those cartridges for the purposes of doing any of the acts described in sub-paragraph 1(a) above.

THE COURT ORDERS THAT:

2. By 28 March 2018, the Respondents deliver up on oath to the Applicants at an address nominated by the Applicants in New South Wales, all printer cartridges within Categories 4, 5, 6, 7 and B identified in the table in Annexure A to these Orders which are in the possession, power, custody or control of any of the Respondents.
3. During the term of each of the Patents, each Respondent, by itself, its directors, officers, servants, agents or otherwise, be permanently restrained from infringing claim 1 of each of the Patents by engaging in the following acts within the Patent Area without the licence or authority of the First Applicant:
selling, otherwise disposing of, offering to sell or otherwise disposing of the Infringing Cartridges, or any other original Epson cartridges that are embodiments of claim 1 of the Patents that have had one or more of the following modifications made to them (**Materially Modified Cartridges**):
 - removal of the integrated circuit board and replacement of the memory chip with a generic memory chip;
 - cutting of the interface pattern; and
 - replacement of the integrated circuit assembly;importing Infringing Cartridges or Materially Modified Cartridges;
keeping Infringing Cartridges or the Materially Modified Cartridges for the purposes of doing any of the acts described in sub-paragraph 3(a) above; and
authorising other people to engage in any of the acts described in sub-paragraphs 3(a) to (c) above.
4. There be inquiries, including appropriate discovery, as to:

damages or an account of profits in respect of the Respondents' infringements of the Patents; and

damages in respect of the First, Second and Third Respondent's breach of the Settlement Deed between them and the Applicant dated October 2013.

5. The inquiries in Order 4 be stayed:
initially for a period of 21 days from the date on which these Orders are pronounced (calculated in accordance with rule 1.61 of the *Federal Court Rules 2011* (Cth)); and
if an appeal is lodged within that period, until the final determination of that appeal, or further order.
6. The application, including the Applicant's claims of trade mark infringement, breach of statutory duties under sections 145 and 148 of the *Trade Marks Act 1995* (Cth), contravention of sections 18 and 29 of Schedule 2 to the *Competition and Consumer Act 2010* (Cth) (**Australian Consumer Law**), breach of contract and patent infringement other than by reason of the conduct referred to in Order 1 above, otherwise be dismissed.
7. To the extent necessary, leave is granted to the parties to appeal from these orders.
8. The Applicants pay the Respondents' costs to the extent that those costs relate to:
the Applicants' claims of trade mark infringement;
the Applicants' claims of breach of statutory duties under sections 145 and 148 of the *Trade Marks Act 1995* (Cth) (including the costs associated with the Applicants' Interlocutory Application filed 3 November 2016); and
the Applicants' claims of contravention of sections 18 and 29 of the Australian Consumer Law.
9. Costs relating to the breach of the Settlement Deed as addressed in Section 10 of the judgment in *Seiko Epson Corporation v Calidad Pty Ltd* [2017] FCA 1403 be reserved.
10. Subject to order 9 made on 21 December 2016 and order 2 made on 26 April 2017, the respondents pay 75% of the applicants' costs in relation their claim for patent infringement.

11. The Respondents pay the Applicants' costs to the extent that those costs relate to joint tortfeasorship.
12. The matter be listed for a case management hearing on a date to be fixed.

Note: Entry of orders is dealt with in Rule 39.32 of the *Federal Court Rules 2011*.

Annexure A

No.	Type of modification	Calidad model / type
Current (all cartridges sold after April 2016, excluding the Calidad 260H referred to in Category 1)		
Category 1	Preparation refilling processes + Reset in normal mode; Normal mode R&D processes+	Calidad 260 Std (originally Epson T200) Formerly, Calidad 260H (originally Epson T200XL)
Category 2	Preparation Refilling processes + Reset/reprogram in test mode for ink level, cartridge status Test mode R&D processes +	Some Calidad 253 (originally Epson 133) Some Calidad 258 (originally Epson 138)
Category 3	Preparation Refilling processes + Reset/reprogram in test mode for model number, ink colour, ink level, cartridge status and date of manufacture Test mode R&D processes +	Some Calidad 253 (originally cartridges other than Epson 133) Some Calidad 258 (originally cartridges other than Epson 138)
Category A	Cartridge categories 2 or 3 above, without the gas membrane cut (95% of cases)	5% of Calidad 253 and Calidad 258 cartridges
Former (all cartridges sold before April 2016)		

Category 4	Preparation refilling processes + Chip replacement process Compatible chip R&D processes +	Calidad 260H (originally cartridges other than Epson T200XL)
Category 5	Same as category 4 cartridges which have also had interface pattern cutting process	Some Calidad 250
Category 6	Same as categories 2 or 3 plus interface pattern cutting process	Some Calidad 253 Some Calidad 258

Category 7	Categories 5 or 6 cartridges plus replace integrated circuit assembly	Some Calidad 250 imported in 2014-2015 Some Calidad 253 imported in 2014-2015 Some Calidad 258 imported in 2014-2015
Category B	Cartridge categories 5, 6, or 7 above, without the gas membrane cut (95% of cases)	Some Calidad 250 Some Calidad 253 Some Calidad 258

REASONS FOR JUDGMENT

BURLEY J:

Introduction

1. On 29 November 2017 I published my reasons for judgment; *Seiko Epson Corporation v Calidad Pty Ltd* [2017] FCA 1403 (**judgment**). I directed that the parties co-operate to provide draft short minutes of order to be made consequent on my findings, and that they provide written submissions directed to any areas of disagreement between them. On 20 December 2017 I heard oral argument in relation to the two disputed aspects of the orders, which concern the form of declaratory relief to be granted and costs. In addressing these remaining disputes below I use the same defined terms as set out in the judgment.

Declaratory relief

2. Calidad contends that the following declaration should be made:

The conduct of the Respondents referred to in [369]-[370] of the Court's reasons for judgment delivered on 29 November 2017 does not fall within sections 145 or 148 of the Trade Marks Act 1995 (Cth) (**Trade Marks Act**).
3. It submits that the proposed declaration is appropriate because it is directed to a legal controversy between the parties concerning the application of ss 145 or 148 *Trade Marks Act 1995* (Cth) and it reflects the Court's findings in the judgment at [374]. Calidad refers to s 21 *Federal Court of Australia Act 1976* (Cth) (**FCAA**), and *Ainsworth v Criminal Justice Commission* (1991) 175 CLR 564 at [581] – [582] and *Crane v Gething* (2000) 169 ALR 727 (French J) at [31] in support of the proposition that the Court has power to make such an order. Seiko submits that Calidad is not entitled to a declaration as of right and that the effect of the declaration sought is no more than to state the findings already set out in the judgment.
4. In my view it is not necessary or appropriate in the current circumstances to make the declaration. The judgment at [374], [390], [391] makes clear the position insofar as Calidad is concerned. Furthermore, Calidad has not sought any declaratory relief in its

cross-claim that aligns with this order as sought. Accordingly, I decline to make this declaration.

5. The next contentious declaration is the phrase marked in bold in the following:

Prior to April 2016, but not thereafter, the Respondents have, without the licence or authority of the First Applicant, infringed claim 1 of each of Australian Patent Numbers 2009233643 or 20123219239 (Patents) by, within the Patent Area (as that term is defined in the Patents Act 1990 (Cth)):

(a) selling, or offering to sell the printer cartridges within Categories 4, 5, 6, 7 and B identified in the table in Annexure A to these Orders (the Infringing Cartridges);

(b) importing those cartridges; and

(c) keeping those cartridges for the purposes of doing any of the acts described in sub-paragraph 2(a) above.

6. Calidad does not oppose the making of the declaration generally, but submits that the words “[p]rior to April 2016, but not thereafter” should be included. It submits that these words are necessary because none of the cartridges found to infringe were sold after April 2016; J [447]. It submits that the additional words reflect the evidence and findings that were made and that such a declaration will assist in circumscribing the scope of any inquiry as to pecuniary relief. Seiko submits that the limiting words proposed by Calidad should not be included because they do not reflect the outcome of the dispute, which involved a general finding of infringement.
7. In my view the words of limitation are appropriate. The case before me was conducted on the basis of an agreed state of affairs as to what categories of products were sold and when; see J[73]. The injunctive relief made in order 3 ensures that there will be no repetition of the impugned conduct. However, it is appropriate to make clear in the declaration the agreed position of the parties that after the date identified, the infringing conduct ceased.

Costs

8. Calidad submits that costs should be addressed on the basis of the parties’ success in each of the several different causes of action litigated. It submits that it should have all of its costs in respect of Seiko’s failed actions in relation to trade mark infringement, breach of statutory duty and misleading or deceptive conduct. It submits that costs in relation to the case brought for breach of the Settlement Deed should be

reserved, because special considerations arising from an earlier offer are present that cannot be determined until quantum is resolved. Calidad accepts that it should pay Seiko's costs in relation to the joint tortfeasorship issue.

9. In relation to the patent infringement case, Calidad submits that, subject to 2 costs orders already made, each party should bear its own costs. This, it submits, is appropriate because while Seiko succeeded on 5 cartridge types, none of these are manufactured using the "current process" that Ninestar has adopted since April 2016 and as a result Seiko's success is confined to a finding of liability for historical conduct. By comparison, Calidad has established that it is lawfully entitled to continue to exploit its current product range in Australia. Calidad further submits that much evidence and argument on the patent issues was directed towards matters such as the research and development work that Ninestar had undertaken and evidence about resetting and reprogramming of the memory chip, each of which was found to be irrelevant to the assessment of infringement.
10. Calidad submits that this is not a case where an applicant has commenced a claim for relief supported by several independent grounds and succeeded on some but not others. In such a case, costs would ordinarily follow the "event" of each ground. It submits that rather, this is a case where an applicant has sought to impugn several discrete species of conduct and has succeeded in doing so in respect of some, but failed in relation to the rest. The result has been mixed, but overall has led to Calidad succeeding in respect of half of the cartridges, and Seiko in respect of the other half. It submits that the appropriate result is that each party should bear the costs of its own success, with the broad result being that there should be no order as to costs on the patent case. In the alternative, Calidad submits that if the Court considers that a proportion of the costs should be awarded to Seiko, then that proportion should be modest and in the order of 25% of the costs of the patent issues.
11. Seiko advances as its primary case a wholly different approach. It submits that Calidad should pay 60% of its costs of the whole proceeding without dissecting costs by reference to causes of action. It submits that the decision of the Full Court in *Les Laboratoires Servier v Apotex Pty Ltd* [2016] FCAFC 27; (2016) 247 FCR 61

(*Servier*) indicates that: the broad principle applicable to the allocation of costs is that subject only to limited exceptions relating to disentitling conduct of the successful party, a successful party is entitled to an award of costs, however, where a party relies on grounds that are not established the successful party might not recover all of its costs. Further, the question of apportionment is a matter of discretion and does not lend itself to mathematical precision, and that the Courts have been slow to order a successful party to pay the costs where it has been unsuccessful on some issues.

12. Seiko submits that it has been the successful party in the proceedings and that it is entitled to an award of costs. It proposes a 40% reduction in its overall costs as a “generous” allowance given that the central dispute concerned patent infringement. Seiko commenced the proceeding in September 2015 to restrain Calidad from exploiting its patents in respect of the category 4, 5, 6 and 7 cartridges which were found to infringe. In September 2016 Calidad revealed in its evidence that it was now importing and selling in Australia the category 1, 2 and 3 cartridges, which were found not to infringe. No undertaking was proffered not to resume sales of the infringing cartridges and the Court ultimately accepted that Seiko was entitled to declaratory, injunctive and potentially pecuniary relief in respect of the infringing conduct. In light of these matters Seiko submits that it should have 60% of its costs of the whole proceeding because the addition of the non-infringing category 1, 2 and 3 cartridges did not lead to a significant increment in time or cost of the proceedings, while the patent infringement claim occupied a “large proportion” of the time at trial and the majority of the submissions and cross-examination were directed to it and the patent infringement claim was the most important of the causes of action.
13. The power of the Court in relation to costs is well established. As the Full Court recently observed in *Idenix Pharmaceuticals LLC v Gilead Sciences Pty Ltd* (No 2) [2018] FCAFC 7 at [2]:

Section 43 of the *Federal Court of Australia Act 1976* (Cth) gives the Court a wide discretion in awarding costs. The exercise of the Court's discretion is not without principles or practices; it must be exercised judicially (*Les Laboratoires Servier v Apotex Pty Ltd* (2016) 247 FCR 61 at [305] per Bennett, Besanko and Beach JJ). The ordinary rule is that costs follow the event, although a successful party may be awarded less than its costs, or costs may be apportioned, based upon success on the issues (*Firebird Global Master Fund II Ltd v Republic of Nauru* (No 2) (2015) 327

ALR 192; [2015] HCA 53 at [6] per French CJ, Kiefel, Nettle and Gordon JJ; *Les Laboratoires Servier* at [297] to [298] and [303]).

14. For the following reasons I do not accept Seiko's submission that a general award of 60% of all of its costs of the proceedings is appropriate in the present case.
15. First, the breach of statutory duty, infringement of trade mark and misleading or deceptive conduct cases that were brought by Seiko (as addressed in the judgment in Sections 7, 8 and 9) were each discrete causes of action. Seiko did not succeed on these issues and Calidad should have its costs of each. Secondly, it is common practice in cases of this type for costs to be awarded on an issues basis where they can sensibly be separated; *Servier* [300], [301]. The 6 different claims in the present case can in my view be so separated and the clear success of Calidad in respect of 3 of those should be recognised in a costs award. Thirdly, although Seiko's general award approach does purport to take into account Calidad's success, it seems to me that, in the absence of further information, the question of whether or not it represents a fair allocation of costs is a matter of chance. No evidence suggests that the 40% allowance has any bearing on an appropriate apportionment. In the absence of any agreement between the parties on the subject, I am left to speculate whether or not it has any foundation in reality; cf *Hislop v Paltar Petroleum Limited (No 4)* [2017] FCA 1632 at [7], per Gleeson J. Fourthly, an award of costs that adopts an issues based approach enables the question of costs in relation to the Breach of Settlement Deed issue to be deferred for consideration at an appropriate time.
16. I turn now to the award of costs in respect of the patent infringement case, which is specifically addressed in sections 3 – 6 of the judgment. Seiko succeeded in respect of that issue, albeit only in relation to the category 4, 5, 6 and 7 cartridges. Nevertheless, it succeeded in establishing infringement, and secured declaratory and injunctive orders and will be entitled to prosecute an inquiry into the amount of any pecuniary relief to which it is entitled. In my view Seiko is entitled to a substantial portion of its costs in relation to the action for patent infringement. However, Seiko failed to establish infringement in respect of the category 1, 2 and 3 cartridges. Seiko proposes (in the alternative to its primary argument) that a 10% reduction in its costs would be

appropriate to allow for this failure. My impression, having regard to the evidence read, the cross-examination conducted at trial and the submissions made, is that a fairer apportionment is to allow a reduction of 25% of Seiko's costs of the patent claim. I do not consider that Calidad's submission that each party pay its own costs accurately reflects the outcome of the issue, which was that Seiko succeeded in its patent infringement claim. Accordingly, Calidad should pay 75% of Seiko's costs of the patent infringement claim.

I certify that the preceding sixteen (16) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Burley.

Associate:

Dated: 16 February 2018