

The Importance of Taking Settlement Offers Seriously

Woodtree Pty Ltd v Zheng [2007] FCA 1922

Even though the Appellant in this case was partially successful in its appeal, it recovered less by way of damages and costs than it would have recovered if it had accepted a “Calderbank” settlement offer made over a year before the appeal was heard.

The Federal Court upheld the Appellant’s appeal and found that the Respondent had engaged in misleading and deceptive conduct by offering for sale and selling photo boxes in very similar packaging to Woodtree’s photo boxes. However, the Appellant failed in the claim that its labels, made up of a photograph and unstylised text describing the product, qualified for protection as “drawings” under the Copyright Act 1968 (Cth).

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FACTS

The dispute concerned the labels on packaging for photo boxes.

Both the appellant, Woodtree Pty Ltd (“**Woodtree**”) and the respondents, Blue Boss Pty Ltd and its director Mr Zheng (“**Blue Boss**”), market their photo boxes in the same size cardboard boxes. The photo boxes contain plastic sleeves to store photographs in a filing cabinet type arrangement.

Blue Boss’ label, which is affixed to the packaging, contains a photograph of the wooden box with a plastic sleeve next to it. The box and sleeve contain a photograph of a woman sitting on a couch. The label contains the text “wooden photo box with 6 albums” and “holds 120 photos 10 X 15cm (4”x6”)”. Immediately to the left of the word “wooden” appears the word “memento” but this word had been covered initially with a white paper strip and later, more effectively, with a black strip. A smaller label bearing the words “Better Homeware” was also affixed on two sides of the box (“**the Blue Boss label**”).

In comparison, the Woodtree label includes the trade mark “UNIGIFT”; the word “memento” is visible; and a wedding photograph rather than a woman sitting on a couch is used (“**the Woodtree label**”). In addition, the Woodtree label is printed on the cardboard rather than affixed to the packaging. Apart from these differences, both Woodtree and Blue Boss labels are the same.

FINDINGS

Misleading or Deceptive Conduct

The Federal Court overturned the Federal Magistrate’s decision and found that Blue Boss

had engaged in misleading or deceptive conduct in breach of the *Trade Practices Act 1974* (Cth).

In making his findings, the Court was particularly influenced by Blue Boss’ conduct.

Mr Zheng, the director of Blue Boss, had previously purchased photo boxes from Woodtree and later decided to import his own photo boxes. He contacted a Chinese supplier, provided a sample product and a copy of Woodtree’s packaging. The Judge did not accept Mr Zheng’s assertion that he asked the Chinese supplier to make Blue Boss’ packaging distinct from Woodtree’s packaging and asked for the word “memento” to be excluded.

In overturning the Federal Magistrates’ decision the Federal Court found:

1. the products were often marketed at retail outlets side by side;
2. the photo boxes were themselves identical (apart from the photographs displayed);
3. the general get-up of the packaging was strikingly similar in context, type face and layout;
4. the overall impression was that Blue Boss’ packaging, and in particular the label affixed to it, appeared cheaper and less sophisticated than Woodtree’s packaging; and
5. Blue Boss’ retail price was “substantially less” (\$10 to \$20 less) than the retail price of Woodtree’s product.

In this context, the Federal Court considered that many purchasers would be likely to infer that both products had a common source. Contrary to other decisions where it has been held that use of a



different trade name will neutralise the misleading or deceptive conduct, the Court thought that consumers would not pay much attention to the “Unigift” or “Better Homeware” brands to determine the actual trade source. Instead, the Court thought that “due to common marketing practices”, the purchaser when seeing Woodtree’s and Blue Boss’ packaging would be likely to think that the same manufacturer was giving them a choice to buy the same photo box but with cheaper packaging for a lesser price.

Without making a finding regarding whether Woodtree had a prior reputation or the extent of that reputation, the Court held that the Blue Boss’ product, sold in its very similar packaging, would be likely to mislead or deceive consumers into believing that Blue Boss and Woodtree’s photo boxes came from the same source. The Court relied on recent Full Federal Court authority that it is not necessary for a plaintiff to establish an exclusive reputation, or indeed a reputation at all to make out a claim of misleading or deceptive conduct.¹

The Court also made an express finding that Blue Boss’ copying was deliberate.

Copyright

Woodtree asserted that its label is an “artistic work”, specifically a “drawing” and that Blue Boss had reproduced or substantially reproduced this drawing in breach of the *Copyright Act 1968* (Cth).

Under the Copyright Act a “drawing” is defined to include “a diagram, map, chart or plan”. The Court further noted that the essence of a drawing remains the concept of a representation of some object by a pictorial line and may or may not include colour.

Woodtree’s label consisted substantially of a photograph. Woodtree did not assert any copyright in the photograph itself. Photographs are specifically treated as being distinct from drawings in the *Copyright Act*. The only other visual item contained on the label was the text on Woodtree’s label. Whilst previous Courts have held that words in a distinctive form or even highly stylised letters may qualify for protection under the *Copyright Act* as “drawings”, the unstylised text on Woodtree’s

label did not qualify as a “drawing”.

The Federal Court therefore rejected Woodtree’s contention that the words and the placement of the photograph taken together were part of an overall design which constituted a “drawing”.

Woodtree’s later attempt to claim that the label was a literary work, more specifically a compilation, was also rejected. Under the Act a “literary work” includes “a table, or compilation, expressed in words, figures or symbols”. To qualify as a compilation the label needs to involve a collecting and putting together or arranging or organising of disparate data. However, Woodtree’s label was simply comprised of a photograph and a description of the product.

Woodtree therefore failed in its claims under the *Copyright Act*.

Woodtree’s appeal was upheld insofar as it was based on its claims under the *Trade Practices Act 1974* (Cth) but its claims for copyright infringement were rejected. Damages were assessed at \$3684.20.

THE CALDERBANK OFFER

On 10 January, 2008 the Federal Court made an award of legal costs for this dispute. In making this award, the Court took into account that Woodtree rejected a “Calderbank offer” of settlement made by Blue Boss in June 2006.

A Calderbank offer is an offer made to settle a dispute which is “Without Prejudice Save as to Costs”. Making the offer “without prejudice” protects the party making the offer from being compromised by any admissions made in the offer. Also including the words “save as to costs” allows the party making the offer to later rely on the offer, if it is rejected, when the Court considers the award of legal costs. When making a determination of legal costs, the Court can take into account the rejected Calderbank offer and make an award of legal costs in favour of the party making the offer such that the party who rejected the offer is ordered to pay all legal costs from the date on which the other party should have reasonably accepted the offer.

According to Woodtree, it rejected the Calderbank offer because Blue Boss was a former customer and it was hoping to reach a confidential settlement. However, the



¹ Cadbury Schweppes Pty Ltd v Darrell Lea Chocolate Shops Pty Ltd (2007) 159 FCR 397 at [96]-[99]

Court found that Woodtree did not seek a confidential settlement in any counter offer. Further, Woodtree indicated that it engaged in litigation to deter other traders and/or to obtain a settlement which would allow it to show that it had prevented Blue Boss from carrying on its wrongful actions.

The Court considered that in circumstances where a rejected Calderbank offer is followed by a successful appeal, even though the appeal produces an outcome less favourable than the offer, the offer continues to have cost consequences for the appeal, but the appellate court retains its discretion to make the award of costs.

In the Federal Court's view, Woodtree's rejection of Blue Boss' Calderbank offer was "imprudent" and affected by unreasonable expectations of success of its copyright claim. On the other hand, the Court acknowledged that Woodtree had to appeal to overturn the Federal Magistrates' finding against it with respect to its trade practices claims.

The Court therefore ordered that Blue Boss pay Woodtree's costs up to 7 June 2006 (the last rejection of Blue Boss' offer) on a party and party basis (that is, broadly speaking on a scale of about one third to one half of Woodtree's actual costs) and after that date, Woodtree was ordered to pay Blue Boss' costs on an indemnity basis (that is, the actual legal costs Blue Boss incurred). There was no order for the costs of the appeal.

CONCLUSIONS

Although woodtree successfully appealed the trade practices claim, woodtree recovered less by way of damages and costs than it would have recovered if had it accepted blue boss' calderbank offer made in June 2006.

IMPLICATIONS

1. If Woodtree had concentrated on its claim that Blue Boss had engaged in misleading and deceptive conduct, it would avoided the costs associated with pleading, preparing evidence and making submissions to support Woodtree's claim that its label was a "drawing" and protected under the *Copyright Act*.
2. This case reiterates that it is not necessary to establish a reputation to succeed in an action for misleading or deceptive conduct under the *Trade Practices Act*. It is, however, necessary to establish a reputation to succeed in an action for passing off.
3. Not all Calderbank offers will be reasonable and therefore not worthwhile accepting. However, if you receive a Calderbank offer, you should give careful consideration to the consequences of continuing the dispute and seriously take into account the possible cost consequences of rejecting the offer. If a less favorable outcome than that offered eventuates you may be ordered to pay the legal costs of the party making the offer from the date the offer was made.
4. Calderbank offers are a useful tool for litigants who want to achieve a reasonable settlement.

AUTHOR

Elizabeth Godfrey, Senior Associate

FURTHER INFORMATION

For further information or advice on the topics covered in this article or other intellectual property law matters please contact:

Rodney De Boos, Partner
+ 61 3 9254 2888 or rdeboos@davies.com.au



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Melbourne

1 Nicholson Street,
Melbourne VIC 3000
Telephone +61 3 9254 2777
Facsimile +61 3 9254 2770

Sydney

255 Elizabeth Street,
Sydney NSW 2000
Telephone +61 2 9293 1000
Facsimile +61 2 9262 1080

Brisbane

Level 3, 303 Coronation Drive,
Milton QLD 4064
Telephone +61 7 3368 2255
Facsimile +61 7 3368 2262

Canberra

Level 11, 60 Marcus Clarke St,
Canberra ACT 2601
Telephone +61 2 6248 8063
Facsimile +61 2 6248 6591

Newcastle

130 University Drive
Callaghan NSW 2308
Telephone +61 2 4960 8366
Facsimile +61 2 9262 1080