

**IN THE HIGH COURT OF NEW ZEALAND  
AUCKLAND REGISTRY**

**CIV-2011-404-00841  
[2012] NZHC 1582**

BETWEEN	INTERNATIONAL PHOTO INTELLECTUAL PROPERTY LIMITED First Plaintiff
AND	SPLASH NEWS & PICTURE AGENCY INC Second Plaintiff
AND	BWP MEDIA USA INC Third Plaintiff
AND	PACIFIC MAGAZINES NZ LIMITED First Defendant
AND	PACIFIC MAGAZINES PTY LIMITED Second Defendant

Hearing: 30 March 2012

Counsel: C Elliott for Plaintiffs  
R J Katz QC and J Dickson for Defendants

Judgment: 9 July 2012

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**JUDGMENT OF POTTER J  
on interlocutory applications**

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In accordance with r 11.5 High Court Rules  
I direct the Registrar to endorse this judgment  
with a delivery time of 11 a.m. on 9 July 2012.

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## Table of Contents

Introduction	[1]
Relevant background	[6]
Pleadings	[10]
Plaintiffs' interlocutory applications	[14]
Defendants' interlocutory applications	[20]
Defendants' applications for further particulars of alleged damages and particular discovery of documents relevant to the measure of damages	[25]
Defendants' application for particular discovery – documents relative to the affirmative defence	[74]
Defendants' application for particular discovery – documents relevant to licensing arrangements	[82]
Orders	[90]
Costs	[91]
Next steps	[92]

## Introduction

[1] This is a copyright case with a contractual overlay. The second and third plaintiffs (Splash and BWP)<sup>1</sup> are California based companies that own the copyright in certain photographic images. This case concerns whether the first plaintiff, International Photo Intellectual Property Limited (IPIPL), which is the exclusive licensee in New Zealand of Splash and BWP, controls the licensing of those photographic images in New Zealand; and whether the images can be printed in Australia and sold in New Zealand without breaching copyright and without payment of licensing fees.

[2] The contractual issues arise from a deed settlement entered into in 2004 between IPIPL and the first defendant Pacific Magazines NZ Limited (Pacific NZ) to settle claims in respect of the provision of photographic images by IPIPL to Pacific NZ in New Zealand. Certain payments were made by Pacific NZ under the deed of settlement but payments subsequently ceased.

[3] Counsel are agreed that the focal issue for trial will be the interpretation and application of s 12(5A)(a) of the Copyright Act 1994 which relates to parallel importing. The defendants say they are entitled by virtue of s 12(5A)(a) to import the photographic images in question into New Zealand as they have done, and that this does not infringe IPIPL's copyright. The plaintiffs disagree.

[4] Section 12(3) relevantly provides:

(3) An object that a person imports, or proposes to import, into New Zealand is an infringing copy if—

...

(b) the importer would have infringed the copyright in the work in question in New Zealand had the importer made the object in New Zealand, unless the object is one to which subsection (5A) or subsection (6) applies.

...

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<sup>1</sup> The second and third plaintiffs are not active participants in the proceeding. They rely on s 124(2) of the Copyright Act 1994 to claim immunity from costs.

(5A) An object that a person imports or proposes to import into New Zealand is not an infringing copy under subsection (3)(b) if—

(a) it was made by or with the consent of the owner of the copyright, or other equivalent intellectual property right, in the work in question in the country in which the object was made; or

...

[5] This judgment concerns a number of interlocutory applications by the plaintiffs and the defendants, some of which have been resolved in whole or in part either before or following the hearing of the applications on 30 March 2012. I refer to these aspects below.

### **Relevant background**

[6] At the relevant times, IPIPL was the exclusive licensing agent in New Zealand for a number of international photographic agencies including Splash and BWP. IPIPL says it was exclusively licensed by Splash and BWP to allow its customers to reproduce within New Zealand the photographic images owned respectively by Splash and BWP.

[7] The first defendant, Pacific NZ, was a New Zealand magazine publisher that ceased trading from September 2010. On 23 July 2004 Oceania News & Features, the predecessor of IPIPL, entered into a deed of settlement with Pacific NZ (the deed of settlement) to settle a dispute concerning the payment of licensing fees by Pacific NZ for use of the copyright photographic images. The deed provided for the sum of NZ\$130,000 plus GST to be paid by Pacific NZ to IPIPL. Under the deed of settlement the parties also agreed to a licensing regime in respect of the future sale and distribution of publications in magazines containing copyright photographic images which IPIPL had the exclusive right to licence in New Zealand. Clause 3 of the deed of settlement, which is at the heart of the contract dispute in this case, provides:

3. Pacific hereby acknowledges and agrees that where Photographic Images are incorporated into New Zealand Editions which are published, distributed or otherwise promoted in New Zealand by Pacific, in circumstances where that incorporation would otherwise

constitute an infringement of the relevant copyright, it shall be liable to pay licence fees to [IPIPL] at the prevailing rates.

[8] Payments were made under the deed of settlement by or on behalf of Pacific NZ in July 2005 and March 2007.

[9] In or about July/August 2003 the defendants appointed Fairfax New Zealand trading as Gordon & Gotch New Zealand as their retail distributor within New Zealand for new publications notified to Gordon & Gotch by the defendants. The plaintiffs allege that in so doing the defendants combined to secure the doing of acts which proved to be in breach of the deed of settlement and infringement of copyright. Through Gordon & Gotch, Pacific Pty exports magazines produced in Australia, into New Zealand. The plaintiffs claim that this practice infringes copyright in some of the photographic images that appear in these magazines. The publications at issue in this proceeding are selected editions of “Who” and “Famous” magazines published by Pacific Pty in 2007 and 2008.

### **Pleadings**

[10] The pleadings are complex. The plaintiffs make several claims against the first and second defendants: breach of contract, breach of copyright, procurement of breach of contract and of copyright infringement and estoppel by convention and/or representation.

[11] They seek by way of relief declarations that Pacific NZ has breached copyright and breached or procured the breach of cl 3 of the deed of settlement. They seek an inquiry as to damages in relation to all New Zealand Editions published by the second defendant during the periods of the Splash and BWP licenses (excluding those editions for which settlement and payment was made pursuant to the deed of settlement). In relation to the claim of estoppel by convention they seek a number of orders including that the defendants are estopped from contending that s 12(5A)(a) of the Copyright Act is an affirmative defence against infringement of the selected photographic images.

[12] By their statement of defence and counterclaim the defendants deny the plaintiffs' claims of breach of contract and copyright. They raise an affirmative defence against the plaintiffs that there is an established custom and practice in the magazine industry under which local editions of magazines containing photographic images reproduced within the geographic territory, with the permission of the copyright holders/licensees, are exported into other territories without the payment of a separate licensing fee for the use of the photographic images within those other territories. They plead that this industry custom and practice applied at the relevant times in Australia and New Zealand to the photographic images licensed by or through Splash and BWP; and that the plaintiffs were aware of, and participated in, this established magazine industry custom and practice. They say they have proceeded on the basis of this underlying assumption and that the plaintiffs are estopped from denying it and its application to the circumstances of this case.

[13] The defendants also plead a number of counterclaims to which the plaintiffs have responded by reply and defence. The defendants in turn have filed in reply and defence.

### **Plaintiffs' interlocutory applications**

[14] The first plaintiff filed interlocutory applications for:

- (a) Security for costs;
- (b) Particular discovery; and
- (c) A challenge to a claim of confidentiality in respect of the Gordon & Gotch distribution agreement dated 2003.

[15] Prior to the hearing counsel notified the Court that the respective applications of the first plaintiff and the defendants for security for costs had been settled by agreement (except as to costs) and that the defendants waived their claim to confidentiality in the Gordon & Gotch agreement.

[16] By its application for particular discovery dated 8 March 2012 IPIPL seeks discovery from Gordon & Gotch of all relevant records relating to the importation, promotion, distribution and sale of the allegedly infringing publications in New Zealand, namely the “Who” and “Famous” magazines. The plaintiffs claim that the defendants have power or control of the relevant documents, given the formal contractual relationship between them and Gordon & Gotch.

[17] The defendants, through their solicitors Simpson Grierson, requested specified documentation from Gordon & Gotch. By letter dated 2 May 2012 Gordon & Gotch advised that they “do not have any data that is relevant to the requests made”.

[18] By joint memorandum dated 29 June 2012 counsel advised the Court that the parties have agreed that Simpson Grierson will, as soon as practicable, make a further request and clarify certain issues with Gordon & Gotch. If that request fails to produce an acceptable outcome the parties agree that IPIPL should either set down for hearing its application for particular discovery by Gordon & Gotch or file an amended application for particular discovery against the defendants.

[19] Accordingly, none of the plaintiffs’ applications require further attention in this judgment.

#### **Defendants’ interlocutory applications**

[20] By application dated 19 March 2012 the defendants applied for:

- (a) Security for costs;
- (b) Further particulars of the amended statement of claim dated 4 August 2011;
- (c) Particular discovery; and

- (d) Strike out of specified paragraphs of the amended statement of claim dated 4 August 2011 and the plaintiffs' reply and defence dated 1 November 2011.

[21] Prior to the hearing of the applications counsel advised that security for costs was agreed (except as to costs).

[22] The second and third applications will be addressed in this judgment.

[23] The application for strike out relates to excerpts from communications that the defendants claim are protected by "without prejudice" privilege and therefore should not be included in pleadings. At the hearing on 30 March, counsel for the plaintiffs requested the basis for the defendants' concerns. As agreed at the hearing, this matter was addressed in a letter from Simpson Grierson for the defendants to Clendons for the plaintiffs, dated 27 April 2012. By joint memorandum dated 29 June 2012, counsel advised the Court that the parties are agreed that this matter should be "parked" until the exchange of briefs of evidence which, it is anticipated, will set out the context in which the defendants purport to rely on the communications in issue. The parties have agreed that the plaintiffs/counterclaim plaintiffs will provide briefs of evidence at least four months in advance of trial and the defendants/counterclaim defendants eight weeks thereafter (with experts' briefs to follow). Counsel contemplate that this agreed timetable will provide adequate time for them to deal with this issue and, if necessary, further address the plaintiffs' application.

[24] The defendants request that in the interim the relevant parts of the Court file be sealed. There will be a consent order accordingly.<sup>2</sup>

**Defendants' applications for further particulars of alleged damages and particular discovery of documents relevant to the measure of damages**

[25] These two applications are closely connected and it is appropriate that they be considered together.

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<sup>2</sup> See [90](2) below.

[26] The plaintiffs resist these applications essentially on the basis that the relief they seek is a declaratory judgment and costs together with an order that there be a subsequent inquiry as to damages. They therefore say that they are not required to provide particulars of loss in respect of the six representative examples of infringement upon which the parties have agreed.

[27] It rapidly became clear at the hearing on 30 March 2012 that there was a fundamental disagreement between counsel as to whether there were to be split trials to deal with liability and quantum (assuming liability by the defendants was found at the first trial) or whether a single trial should address both liability and the measure of damages, leaving only calculation of damages for any subsequent hearing.<sup>3</sup>

[28] This fundamental issue, described by Mr Katz as “the scope of the trial”, requires determination as the outcome will significantly impact the defendants’ applications for further particulars and discovery in relation to damages.

[29] Before turning to consider the opposing submissions of counsel on this issue, I set out the detail of the defendants’ applications for further particulars and particular discovery.

[30] Further particulars: the defendants seek an order that the plaintiffs file an amended statement of claim giving the particulars requested by the notice of the defendants dated 23 November 2011.<sup>4</sup> The notice advises that insufficient particulars are provided to inform the defendants of their potential liability for damages for each of the six selected photographic images under the first, second, third and fourth causes of action in the amended statement of claim dated 4 August 2011 and requires the following particulars under r 5.21 in respect of each of paragraphs 68 and 75 of the amended statement of claim:

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<sup>3</sup> This despite the minute of Miller J dated 22 March 2012 directing that the hearing on 30 March 2012 proceed and making appropriate timetable orders: “... on the basis that only the application for particular discovery remains and counsel will endeavour to reach agreement on that before 30 March”. This was a reference, presumably, to the first plaintiff’s application on which counsel had advised at paragraph 6 of their joint memorandum that “some discrete elements require this Court’s assistance”.

<sup>4</sup> Letter from Simpson Grierson to Clendons dated 23 November 2011 under the heading CIV-2011-404-00841 International Photo Intellectual Property Ltd & Ors v Pacific Magazines NZ Ltd & Anor – particulars of amended statement of claim.

In respect of the inquiry as to damages, please specify, for each of the six selected photographic images:

- (a) The first plaintiff's alleged "prevailing rate for that image";
- (b) The quantum of damages sought;
- (c) How the quantum of damages was calculated.

[31] In respect of paragraphs 80 and 87 of the amended statement of claim the particulars sought are:

- (a) The quantum of damages sought;
- (b) How the quantum of damages was calculated.

[32] Particular discovery: the defendants seek an order pursuant to r 8.19 that the plaintiffs file affidavits of documents:

... relevant to the measure of damages claimed by the plaintiffs in respect of each of the copyright and contractual claims;

- (a) For each of the six selected photographic images; and
- (b) For each different type of image use in respect of which the first defendant calculates charges for photographic images over which it claims to have exclusive rights in New Zealand (for example, non-exclusive images of up to one page in size, cover drop-ins, and main cover images).

[33] I consider the questions to be addressed in determining this issue in the circumstances of this case are:

- (a) Have the parties agreed on the mode or scope of the trial. If so, can they be held to this agreement?
- (b) In seeking an inquiry into damages, have the plaintiffs elected damages as a remedy and thereby excluded the alternative remedy of an account of profits. If so, can they be held to this election?
- (c) What is the most efficient and effective way for this trial to proceed?
  - (i) What is the rationale for split trials as opposed to a single trial?

- (ii) Does any election made by the plaintiffs undermine the rationale for split trials?
- (iii) Do the factors listed in the plaintiffs' submissions weigh in favour of a single trial, split liability/quantum trials, or a "hybrid trial"?

*Was there an agreement on the mode or scope of trial?*

[34] The plaintiffs rely on the "genesis of the agreement between the parties" as recorded in paragraph 3 of the joint memorandum of counsel dated 26 May 2011. Paragraph 3 states:

It is anticipated that the six categories of images as described in the table appended to this memorandum, encompass the images alleged to have been infringed. An amended statement of claim will provide full particulars of one example for each category (including particulars of authorship, subsistence of copyright and chain of title of copyright). The parties intend that, subject to proof pursuant to an enquiry as to damages, the categories selected for trial are to be representative of all the potential infringements alleged. The parties request that the Court make an appropriate direction accordingly.<sup>5</sup>

[35] The plaintiffs submit that paragraph 3 fairly and accurately sets out the parties' agreement and that having reached such an agreement, there was no necessity for the Court to order a split trial. They considered a formal direction by the Court in accordance with paragraph 3 sufficed because an inquiry as to damages necessarily involves separation between liability and quantum.<sup>6</sup>

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<sup>5</sup> The amended statement of claim dated 4 August 2011 annexes a table identical to that attached to the joint memorandum which provides detail of an example in each of six categories under the headings: title (*Famous* or *Who*); edition (date of edition); page; description (description of subject of photographic image); date of creation/first publication (the dates are in 2007 and 2008); image number; head-licensor (either BWP or Splash); name of photographer or employed staff photographer; whether photographer employed or staff; country of citizenship or usual residence.

Paragraph 13.1 of the amended statement of claim pleads that the parties have agreed that the six categories of images described in the table encompass the full range of potential of Photographic Images the subject of the plaintiffs' claim.

The defendants in their statement of defence deny this pleading and refer to the joint memorandum of counsel dated 26 May 2011, stating it was anticipated that the six categories of images described in the table would encompass the images alleged to have been infringed.

<sup>6</sup> The minute of Asher J dated 26 May 2011 made no order and included no direction in relation to the parties' agreement. It simply made timetable orders.

[36] Mr Elliott noted the minute of Venning J on 11 March 2011 which refers to the parties advancing the matter “by the preliminary question in the first instance” and directs that the plaintiffs are to provide the defendants with a draft proposed preliminary question for determination and a draft statement of case by 23 March 2011.

[37] A joint memorandum of counsel dated 8 April 2011 advised the Court that the parties were in discussions in order to explore ways in which this proceeding could be conducted in an efficient and cost-effective manner. It was noted that the dispute involves “potentially thousands of individual photographic images” and the parties were looking at ways to narrow the issues. A joint memorandum dated 10 May 2012 stated likewise.

[38] These memoranda were subsequent to a letter from Clendons for the plaintiffs to Simpson Grierson for the defendants dated 23 March 2011 in which they set out in some detail a suggested approach to trial. The letter identified five issues relevant to determining liability. It then suggested that it was not necessary to split the proceedings and formulate these issues for separate determination but the matter could proceed on the basis of a mutually agreed statement of facts pursuant to r 9.57 of the High Court Rules.

[39] The letter referred to an important purpose of the agreed statement of facts being to establish a representative sample, being a sample representative of the wider class of photographic images but subject to proof pursuant to an inquiry as to damages, if ordered by the Court. The plaintiffs advised that approximately one thousand separate alleged infringements had been identified, which fell into several categories. A copy of the document which subsequently became an annexure to the amended statement of claim identifying these samples in the “Famous” and “Who” magazines was attached.<sup>7</sup> The plaintiffs sought a response to the detailed proposals set out in the letter. They said that if an agreed statement of facts could not be resolved, they would seek directions from the Court or file an application for separate determination pursuant to r 10.15.

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<sup>7</sup> See footnote 5.

[40] The plaintiffs submit that the purpose of the representative sample was, and always has been, to have before the Court a small representative illustration of the types of images the subject of the dispute, to provide context when determining liability issues. They say the purpose was never to ask the Court to determine at the first hearing the quantum of damages or the measure of damages of any images. They say the focus was always on resolving issues of liability first and that when read in this context, the joint memorandum of 26 May 2011 at paragraph 3 sets out such an agreement. They maintain that a split trial was always contemplated in this case and that outcome was in fact achieved by consent; and that split trials will best achieve a just, speedy and inexpensive determination of the proceeding in accordance with r 1.2.

[41] Consequently, when the defendants' solicitors, having notified their requirement for further particulars in their letter of 23 November 2011, wrote on 9 December 2011 that: "[i]t is important to resolve the issue of the shape of this case now, and in particular aspects around a split trial and the claim for damages" and that they had no objection to a split trial *per se* provided that there were only two hearings and that the second trial (if needed) was more of a mechanical accounting exercise, the plaintiffs responded by letter of 17 January 2012:

The splitting of liability and quantum was discussed at length and agreed, and we are surprised that the issue has resurfaced.

[42] They stated that the plaintiffs incorrectly assumed that an inquiry into damages at a second trial was a mechanical accounting exercise, that the defendants were answering allegations as to liability for which no damages were sought at that stage, and there was no basis for the alleged premature determination of quantum, even with respect to the six example images.

[43] On 20 January 2012 Simpson Grierson wrote to Clendons that they fundamentally disagreed that the parties were proceeding on the basis that liability and quantum were split and that "[n]o direction of that sort has been made". They continued

We are not advocating a quantum exercise at trial but it is essential, and efficient, for the Court at trial to determine the measure (not quantum) of

damages. That determination would provide formulae to calculate damages (if any) for all images in contention.

[44] The plaintiffs contend that the defendants' "hybrid approach" of a liability and part quantum hearing would not achieve a short cut but would involve hearing part of the quantum claim in one hearing followed by the rest – the vast bulk - of the quantum claim at another hearing.

[45] Referring to the same paragraph of the 26 May 2011 joint memorandum on which Mr Elliott placed reliance, Mr Katz said the defendants understood that all legal issues relating to copyright and infringement (therefore including damages principles) would be determined at the trial in relation to the representative sample of six images with the balance of images (subject to proof) being dealt with at a later inquiry as to damages (if ordered).

[46] The defendants submit that clearly (and correctly in the defendants' opinion) the plaintiffs have elected an inquiry as to damages, as is made plain by the relief sought in the amended statement of claim. Hence, the rationale for split trials in intellectual property cases - that a plaintiff before electing to claim either damages or an account of profits from the defendant should have the information to make an informed election between damages and an account – does not apply.<sup>8</sup>

[47] Mr Katz submitted that the matter which had been the subject of agreement between the parties was how to address the multitude of images in respect of which the plaintiffs claim breach of copyright and breach of contract, they numbering, according to the plaintiffs, between 1,000 and 1,500.

[48] He submitted that given the clear election by the plaintiffs for damages, this case is no different from any other civil case where split trials would require an application by the plaintiffs and an order of the Court and there has been neither in this proceeding. Here, where an election for damages has been made, liability as well as an assessment of the measure of damages should be made in the course of the

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<sup>8</sup> *Lawrence Abramson "Island Records v Tring" a breakthrough for copyright owners* 6(4) (1995) Ent L R 147-149.

trial and particulars and discovery in relation to damages should be made by the plaintiffs so that such an assessment can be made.

[49] He submitted that the alternative situation referred to in *Island Records v Tring* applies in this case:<sup>9</sup>

It is possible that a plaintiff claiming infringement of copyright and claiming in the alternative damages or an account of profits may seek and obtain a trial at which all issues of liability will be determined as well as an assessment of damages and an account of profits. In such a case, discovery will include all documents relevant to the assessment and account and the plaintiff will be able to make an informed election between damages and an account of profits in the course of the trial in the light of the information revealed on discovery and in the evidence at trial.

[50] I have carefully considered the lengthy correspondence between the parties during 2011 and in the early part of 2012. I have also referred to the memoranda filed in the Court and the relevant minutes of the Commercial List Judges. The different perspectives of the parties can be understood. The plaintiffs' understanding that the parties had agreed on split trials is based on their contextual interpretation of the communications, including that both parties wanted to streamline the process to avoid unnecessary cost, and the focus, in at least the plaintiffs' communications, on first resolving issues of liability, given the scale of the quantum issue and the significant evidence involved. This may well have been underpinned by an assumption that split trials are the usual approach in intellectual property cases.

[51] The defendants could well have proceeded on the basis that there had been no agreement on a statement of facts, nor on any question to be determined. They would have been entitled to assume that the purpose of the six categories of images was to streamline the entire proceeding in relation to both liability and quantum.

[52] In oral submissions Mr Elliott expressed surprise that what he claimed was an agreement for split trials expressed in paragraph 3 of the joint memorandum dated 26 May 2011 had not been confirmed by the Court. He had assumed that the alleged agreement had been confirmed by the Court, but as I have noted<sup>10</sup> this matter was simply not addressed in the minute of Asher J dated 26 May 2011, nor in subsequent

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<sup>9</sup> At [148].

<sup>10</sup> See footnote 6.

minutes. However, he submitted that there was no need for a formal application under r 10.15 because the parties had agreed on split trials to determine first liability and secondly (if necessary) quantum.

[53] I consider it likely that the solicitors for the parties were talking at cross-purposes in relation to the question of split trials in their lengthy correspondence. Clearly they both appreciated the need to agree a streamlined process in relation to the photographic images, given the number of images involved, to achieve a manageable trial. But the plaintiffs' proposal that all issues relating to damages should be deferred for a quantum trial if the defendants were found liable at the first trial was not agreed by the defendants. Rather, the defendants sought further particulars and further discovery in relation to damages on the basis that the measure of damages should be determined at the first trial in reliance on the six representative categories of images being representative, not only of the alleged infringements and in relation to the alleged breaches of contract, but also in relation to quantum.

[54] I conclude there was not agreement on split trials; certainly not a clear and unequivocal agreement that would raise an estoppel against the defendants, as the plaintiffs maintained.

*Have the plaintiffs by seeking an inquiry into damages elected damages as a remedy?*

[55] Split liability and quantum trials are common in intellectual property cases. Ricketson & Creswell summarise the position as follows:<sup>11</sup>

[D]amages and an account of profits are alternate, not cumulative, remedies. It is therefore customary for a plaintiff to apply for these in the alternative, but an election as to which remedy is sought will need to be made before any hearing on the quantum of monetary relief. This election does not have to be made until the question of liability for infringement has been determined, but it is not open to a plaintiff to seek a double inquiry as to damages and an account respectively and then make its election. Furthermore, once an election for one remedy or the other has been made, the plaintiff cannot turn around and seek the other. Before the plaintiff can make its election, it should have sufficient information to make its election on an informed basis. Accordingly, the court may allow the plaintiff to defer its election until it has

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<sup>11</sup> Ricketson & Creswell (ed) *The Law of Intellectual Property: Copyright, Designs and Confidential Information* (looseleaf ed, Brookers) at [2.110] (*citations omitted*).

been able to obtain this information through discovery or other means. In the case of an account of profits, this will include information about the defendant's overhead costs.

[56] Once an election has been made a plaintiff cannot seek the alternative remedy. They are mutually exclusive.

[57] In *Shanton Apparel Ltd v Thornton Hall Manufacturing Ltd*,<sup>12</sup> the respondent had sought an account of profits in its original statement of claim. It was submitted that this constituted an election from which the defendant could not resile. In granting the application for leave to amend the statement of claim, Henry J considered that the plaintiff had not made an “unequivocal and irrevocable choice to discard the remedy of conversion damages”, there was nothing unfair or unjust in allowing the plaintiff to pursue the alternative claim, and the requirements of the common law doctrine of election were not made out.

[58] The Court of Appeal upheld this decision. It did not regard the filing of the statement of claim as indicating an election to condone the alleged infringement, as a statement of claim may be amended without the leave of the Court at any time before the trial and with the leave of the Court after the proceeding has been set down for trial. In the absence of conduct that misled and/or prejudiced the defendant (which may require estoppel), the Court considered that the plaintiff should not be called upon to elect until the evidence had established the facts upon which an election can fairly be made, which may not occur until the plaintiff applies for judgment.

[59] However, in this case the plaintiffs have from the outset sought an inquiry into damages. They have at no stage raised in pleadings, correspondence or otherwise the alternative of an account of profits, nor have they resisted the defendants' categorisation of the inquiry into damages, as an election for damages. The plaintiffs' concern with the defendants' approach has not been that the plaintiffs might be prejudiced in relation to their election, but rather that it will be a waste of resources of both the parties and the Court in effectively conducting two inquiries as

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<sup>12</sup> *Shanton Apparel Ltd v Thornton Hall Manufacturing Ltd* [1989] 3 NZLR 304, recently applied by *Yu v Wang* HC Auckland CIV-2004-404-3837, 17 August 2005 and *Tanner v Mansfield Drycleaning and Launderers Ltd* HC Wellington CIV-2000-485-870, 26 January 2005.

to damages instead of one and the cost and complexity of providing particulars and discovery in relation to damages before liability has been determined.

[60] I consider the plaintiffs may properly be regarded in the circumstances of this case as having made an election for damages.

*How should the trial proceed?*

[61] Having concluded there is no agreement by the parties as to the way in which the trial should proceed and there being no direction or order by the Court, it is necessary that I determine how this case should proceed to trial.

[62] The defendants emphasised that the plaintiffs must bring their entire case: all alleged infringements must be the subject of a single action. They referred to the following passage in *Building Product Designs Ltd v Sandtoft Roof Tiles Ltd (No 2)*:<sup>13</sup>

The requirement of the Rules that each type of infringement *must* specifically be pleaded in a patent infringement action inherently has about it recognition of the importance of economy both with regard to costs as well as in relation to the Court's resources, the implementation of public policy regarding the finality of litigation and not least, practical good sense.

[63] Mr Katz noted the reference in the joint memorandum of counsel which records that it was anticipated that the six categories of images encompass the images alleged to have been infringed. He emphasised that the six categories selected and pleaded by the plaintiffs must encompass the full range of photographic images that are the subject of the plaintiffs' claim.

[64] The defendants urge that it is practical and efficient for the Court at the first trial to determine the formulae to calculate damages (if any) for all images in contention. The trial Judge, with the benefit of the full factual context should determine whether there are differences between any potential recovery under the copyright causes of action as distinct from the contract claims in relation to each of the six selected images, as well as the meaning of "prevailing rate" in the deed of

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<sup>13</sup> *Building Product Designs Ltd v Sandtoft Roof Tiles (No 2)* [2004] FSR 823 at 840.

settlement. The defendants maintain that once these issues have been determined, any pure quantum inquiry could be significantly reduced or even obviated, as the parties would be able to apply the guidance provided by the Court to determine the damages themselves. They say that if these matters are not determined by the trial Judge a second trial (if required) would be “extraordinarily long and complex”.

[65] They referred to *Larrikin Music Publishing Pty Ltd v EMI Songs Australia Pty Ltd*,<sup>14</sup> where it was determined that the precise quantum could be calculated by the “bean counter” rather than the Court after the Court had determined the appropriate percentage in issue. (However, it needs to be noted that in *Larrikin* the alleged infringement related to a single item, a short musical work).

[66] The plaintiffs submit that the defendants’ “hybrid approach” of a liability and part quantum hearing would “most certainly [be] the long way round as it would involve hearing part of the quantum claim in one hearing followed by the rest (the vast bulk) of the quantum claim at another hearing”.

[67] The plaintiffs say that they did not seek an inquiry as to damages as a device to gain separate hearings on liability and damages, the subject of criticism by the Court of Appeal in *Rod Milner Motors Ltd v A-G*.<sup>15</sup> The plaintiffs noted that the Court of Appeal accepted in that case the importance of finality in litigation where damages are capable of straightforward assessment. But the plaintiffs maintain that, given the huge number of potential infringements in this case (estimated to be between 1,000 and 1,500 photographic images involved many of which have not been identified at this point), the situation here is entirely different. The plaintiffs submit that given their approach to seek an inquiry as to damages, it is difficult to see how the Court, if it were to find for the plaintiffs on liability, would not order an inquiry as to damages to follow. The plaintiffs submit that questions of the appropriate royalty rate, prevailing rates and like matters go to issues of quantum, not liability, and are properly reserved for a quantum hearing.

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<sup>14</sup> *Larrikin Music Publishing Pty Ltd v EMI Songs Australia Pty Ltd* [2010] FCA 242, 17 March 2010.

<sup>15</sup> *Rod Milner Motors Ltd v A-G* 2 NZLR 568 at 581 (CA).

[68] The plaintiffs do not disagree that a second quantum trial would be complex but that, they say, is the reality of the particular circumstances of this case and the very reason why they have pursued split trials.

[69] The plaintiffs point to the advantages that split trials reduce costs and, if liability is not established, the invasion of confidence and privacy caused by the need to give discovery as to damages is prevented or at least postponed until actually necessary. Counsel referred to the following extract from *Baldock v Addison*:<sup>16</sup>

The Court has a discretion in a case of a split trial whether or not to limit discovery to the issue of liability, but in my view in all ordinary cases the discretion will be exercised in favour of imposing that limitation. If discovery relating to quantum is not necessary at the stage of the issue of liability, it should not ordinarily be ordered. The parties should not unnecessarily be put to the cost and obligation of disclosure in respect of an issue that may prove academic.

The rules contemplate that circumstances may justify an order for discovery but they must I think be very special. All litigants have a legitimate interest in learning – so far as there is an available source of information – the amount in issue in the litigation. Such information assists in decision-making whether or not to proceed with an action or defence. But I cannot think that in an ordinary case this interest alone will be sufficient in a case of a split trial to justify the order for discovery.

...

The decision in any particular case must involve a balancing of the interests of the parties, how impelling is the need for the information and how expensive and intrusive will be the exercise of making discovery.

[70] The plaintiffs advance the following arguments against the hybrid approach proposed by the defendants:

- (a) It is common ground that quantum issues will be complex.
- (b) The issues for the liability and quantum trials are not discrete – there is a significant evidential overlap. This gives rise to inefficiency and the risk of prejudicial consequences, including the Court's findings at the first hearing being undermined by evidence brought or legal issues traversed in the inquiry as to damages.

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<sup>16</sup> *Baldock v Addison* [1995] 1 WLR 158 (Ch), at 163.

- (c) There is no real clarity as to how the hybrid trial would proceed, including how prejudicial effects would be minimised or avoided. The Court would be required to predict facts that would emerge at the inquiry into damages and to anticipate factual differences across many individual images and pronounce the resulting or likely legal implications. This could result in some facts or issues having to be re-litigated. A hybrid trial will result in wasted judicial effort with the Judge at the first trial determining the legal significance of factual positions in relation to some but not all of the works in dispute.
  
- (d) Even if the Court were able to provide formulae that were narrow enough to cover each of the representative images but broad enough to be applied to all the remaining images, there has to be real doubt that the parties would agree to the application of the formulae to the remaining images.

[71] I accept the relevance and, in combination, the merit of these factors. The plaintiffs' election to seek a remedy in damages is a factor, but not an overriding factor in determining whether there should be split trials for liability and quantum. This is not a case where damages are capable of straightforward assessment or, as was the situation in *Larrikin v EMI*, where the basis upon which damages can be subsequently calculated is capable of straightforward assessment. It is not, in my view, a case where the importance of finality in litigation trumps other relevant factors. In the circumstances of this case, these I consider, point to the efficiency and cost effectiveness of split trials.

[72] I propose therefore to make an order under r 10.15 that the question of liability be determined separately from the question of quantum (if any). I direct that counsel within 7 working days submit for my consideration a proposed question for determination.

[73] Given that decision, I decline the defendants' applications for further particulars and further discovery in relation to damages. The history of dealing between Pacific NZ and IPIPL, including the negotiations in relation to the deed of

settlement dated 23 July 2004 and correspondence between the parties and their legal advisors concerning claims by IPIPL for payment of royalties and licensing fees allegedly due by the first defendant,<sup>17</sup> provide information to the plaintiffs as to the general basis on which damages are sought. Quantification of the plaintiffs' claim (if relevant) should properly follow determination of the liability issues.

**Defendants' application for particular discovery – documents relative to the affirmative defence**

[74] The defendants plead by way of an affirmative defence that there is an established custom and practice in the magazine industry in at least Australia, New Zealand, the United Kingdom and the United States of America under which local editions of magazines containing reproductions of photographic images (reproduced within the geographic territory with the permission of the copyright holders/licensees) are exported into other territories without the payment of a separate licensing fee for the use of the photographic images within those other territories.

[75] They plead that this established magazine industry custom and practice applied at all relevant times in Australia and New Zealand to photographic images licensed by or through Splash and BWP for use in magazines in a particular territory. They further plead that Splash and BWP were at all material times aware of and participated in this established magazine industry custom and practice; and that they and the second defendant, Pacific Magazines Pty Ltd, have proceeded on the basis of the underlying assumption that the established magazine industry custom and practice applied at all relevant times to the licensing arrangements between the licensees of Splash and BWP in Australia and Pacific Pty. They further plead that IPIPL (whose rights are derived from Splash and BWP) is estopped from denying that the established magazine industry custom and practice applied at all relevant times to the licensing arrangements in issue.

[76] The defendants suggest that activities of IPIPL from around 2002 provide evidence of IPIPL's recognition of and involvement in this established magazine

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<sup>17</sup> The letter from Clendons to Freehills dated 2 May 2008 is an example.

industry custom and practice. They refer to the affidavit of Kevin Townsend, a director of IPIPL, dated 20 February 2012, in which he states:<sup>18</sup>

Since 2002 the first plaintiff was anticipating legal action against several magazine publishers. From 2004 onwards the first plaintiff investigated the activities of various publishers that published magazines in New Zealand, containing images over which More Images held exclusive rights in New Zealand. Demands were issued against several of these publishers. These demands were made following investigations and correspondence to and from our solicitors which arose as a direct result of these activities.

[77] The defendants claim that these letters of demand and any subsequent correspondence between IPIPL and other magazine publishers may point to specific examples of the practice taking place several years prior to the period in question, evidencing that the practice has been long established in the magazine industry. They claim that the documents and records of IPIPL's investigations are therefore directly relevant to the defendants' affirmative defence, and seek discovery of them.

[78] The plaintiffs resist discovery on the grounds that such material is irrelevant to these proceedings and that litigation privilege applies to the documents under s 56(1) of the Evidence Act 2006.

[79] The defendants respond that letters of demand are not, by their very nature, confidential and cannot possibly be protected by litigation privilege as codified in s 56 of the Evidence Act. They also submit that s 65, which provides that privilege is waived if the privilege holder voluntarily produces or discloses any significant part of a privileged communication, information, opinion or document in circumstances that are inconsistent with a claim of confidentiality, would apply at least to the letters of demand and possibly to other documents voluntarily disclosed to the other magazine publishers in communications with them.

[80] The documents potentially in issue have not been identified beyond the general description in Mr Townsend's affidavit. They are not listed in the plaintiffs' affidavits of documents. It is difficult to determine relevancy on the basis of the scant information currently available. However, I do not accept the plaintiffs'

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<sup>18</sup> At paragraph 10.

assertion that the documentation, such as it may be, is irrelevant to these proceedings and in particular to the defendants' affirmative defence.

[81] The plaintiffs are to file affidavits of documents listing and describing any documents that fall within this category and identifying any documents in which it claims privilege or confidentiality in this proceeding in the usual way in accordance with rules 8.15, 8.16 and 8.18 of the High Court Rules.

**Defendants' application for particular discovery – documents relevant to licensing arrangements**

[82] The defendants seek particular discovery of:

Documents relevant to the licensing arrangements that were are in place between the second and third plaintiffs and their respective Australian sub-licensees, Snapper Media Ltd and Scope Features Australia of New South Wales.

[83] The plaintiffs oppose the application, stating in their notice of opposition that no such documents exist. However, written communications evidencing the licensing terms have been produced. The plaintiffs referred to a number of documents listed in the first plaintiff's discovery list sworn by Kevin Townsend dated 1 November 2011. The plaintiffs identified documents 100, 77 and 81 listed in Part 1 of the schedule to Mr Townsend's affidavit.

[84] The plaintiffs also referred to the affidavit of Mr Townsend, dated 20 February 2012, filed in support of the plaintiffs' notice of opposition to the defendants' application for particular discovery. In this affidavit, Mr Townsend states, in relation to the licensing arrangements between the second and third plaintiffs and the Australian sub-licensees (Snapper and Scope), that he has been closely involved in the discovery exercise from the outset and has made every reasonable effort to ensure that all relevant documents in the power or possession of IPIPL have been discovered. He says he is satisfied that no other relevant documents exist and confirms that he has read the affidavits filed by Splash and BWP. He offers the following explanation at paragraph 12 of his affidavit:

Owing to that fact the licensing of images for news production is time critical, the industry operates essentially as an intellectual property spot market where the great majority of licensing and license arrangements are made verbally. The companies in this industry tend to have rather informal business practices – coming from the world of paparazzi photography – which means there is sometimes relatively little in the way of written agreements/documents.

[85] Mr Kevin Smith, president of Splash, and Mr Paul Harris, president of BWP, have also sworn affidavits in relation to the order for discovery under r 8.17. Each states in relation to the documents in Part 1 of the schedule, that Splash/BWP has since 20 November 2001 been in contact with IPIPL regarding these proceedings and has provided to IPIPL “copies of relevant documents (including correspondence, employment contracts, photographer representation contracts, and photographer’s passports) as listed chronologically in the draft affidavit of Kevin Townsend dated 11 November 2011, which the deponent in each case has read”. They each state that based on diligent inquiry and to the best of the deponent’s knowledge and belief, no relevant documents in addition to those documents are in the control of Splash/BWP.

[86] The plaintiffs submit that on the basis of these affidavits and the disclosure made they have clearly complied with their discovery obligations, that Mr Townsend, on behalf of the plaintiffs, has provided a commercially informed and plausible explanation as to why no other documents exist, and the defendants have provided no reliable or cogent basis to go behind that statement. They submit that there is no reason to infer that the plaintiffs have other documents which for some reason they have not discovered.

[87] The defendants seek to go behind the affidavits of documents which have been filed by the first, second and third plaintiffs. This seems to be based on the relationships of the parties and an assertion in a flow chart handed up by Mr Katz at the hearing on 30 March 2012, that Oceania (IPIPL’s predecessor) in New Zealand, and Scope and Snapper in Australia are the “Exclusive Licensees” of Splash and BWP. This would, as Mr Katz rightly noted, have required a written agreement in terms of the Copyright Acts in both countries. However, there is no evidence of which I am aware to support an assertion that Scope and Snapper were at the relevant time, exclusive licensees in Australia of Splash and BWP.

[88] Mr Katz proposed in oral submissions (confirmed in the joint memorandum of counsel dated 29 June 2012), that each of the plaintiffs should file a “nil” return affidavit stating that they had no further documents in their control relevant to the licensing agreements that were/are in place between Splash and BWP and their respective Australian sub-licensees, Snapper and Scope. He said that would avoid any surprises at trial with new documents emerging.

[89] I find no proper basis on the information available to me to make an order for particular discovery that goes behind the affidavits of documents filed by the first, second and third plaintiffs. As Mr Elliott said, the first plaintiff has confirmed that all relevant documents have been produced and no party has produced any evidence to suggest otherwise. The defendants’ application for particular discovery in this category is dismissed.

## **Orders**

[90] Accordingly there will be orders as follows:

1. By consent the deed of settlement between the first plaintiff and the first defendant dated 23 July 2004 be rectified to record the correct name of the first defendant as the intended party to that deed, namely Pacific Magazines NZ Limited.
2. Until further order of the Court, paragraphs 43, 61, 111 and 113 of the amended statement of claim dated 4 August 2011 and paragraph 19.8 of the plaintiffs’ reply and defence dated 1 November 2011 be sealed to the intent they are not available for search except by the parties.
3. Pursuant to r 10.15 of the High Court Rules the issue of liability is to be determined at a separate trial followed (if declarations of liability are made against the defendants) by an inquiry as to damages if so ordered by the Court, subject to my approval of a question or questions for determination.<sup>19</sup>

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<sup>19</sup> Refer [72] for direction.

4. Within 20 working days the first, second and third plaintiffs are to file and serve affidavits stating whether the following category of documents are or have been in their control and if they have been but are no longer in their control, stating when the documents ceased to be in their control and who now has control of them:

Documents relevant to the defendants' affirmative defence including material gathered by the first plaintiff when investigating the activities of other publishers that imported magazines into New Zealand containing images over which the first plaintiff claims to have exclusive rights in New Zealand, any invoices or correspondence sent to or received from these publishers concerning alleged copyright infringement along with any invoices, statements, or demands for payment except to the extent that such material relates exclusively to the quantum of the plaintiffs' claim.

### **Costs**

[91] Both parties have had some measure of success. I consider costs should lie as they fall. However, if counsel wish to make submissions as to costs they may do so within 14 working days and I shall determine costs on the papers.

### **Next steps**

[92] This proceeding is listed for mention in the Commercial List on Friday 13 July 2012. If counsel consider that an adjournment of that mention is desirable in light of this judgment they may submit a joint memorandum marked for my attention proposing a subsequent mention date. In the absence of such a memorandum the next event will be the mention on 13 July 2012 at 9.15 a.m.