

## Jeanswest Corporation (New Zealand) Ltd v G-Star Raw C.V.

[2015] NZCA 14

Court of Appeal, (CA764/13)  
Ellen France, Randerson, Wild JJ

26, 27 August 2014;  
17 February 2015

*Intellectual property — Copyright — Protection of interests — Primary and secondary infringement — Similarities between jeans created by two companies — Collocation of four of five distinct design features — Whether essence of design was copied — Whether appellants met the evidentiary burden to refute copying — Whether primary infringement of copyright established — Whether secondary infringement of copyright established — Copyright Act 1994, ss 9, 16, 29, 35, 36, 121(1), 121(2).*

*Intellectual property — Copyright — Infringement — Remedies — Damages — Similarities between jeans created by two companies — Collocation of four of five distinct design features — Whether award of additional damages was appropriate — Whether Judge had erred in not awarding damages — Copyright Act 1994, ss 9, 16, 29, 35, 36, 121(1), 121(2).*

*Civil procedure — Injunctions — Permanent — Primary and secondary infringement of copyright — Similarities between jeans created by two companies — Collocation of four of five distinct design features — Whether copyright protection still existed in the original jean product — Whether Judge had erred in granting permanent injunction — Copyright Act 1994, ss 9, 16, 29, 35, 36, 121(1), 121(2).*

*Words and Phrases — “Has reason to believe”.*

*Words and Phrases — “Knows”.*

This case raised issues of copyright infringement. In 1995, a French clothes designer contracted to the respondent, G-Star Raw C.V., sketched a design for a pair of biker jeans which became known as the “Elwood”. To celebrate its 10th year anniversary, the respondent brought out an updated version called the “Anniversary” jean.

Jeanswest Australia produced a similar jean, the “Dean Biker Slim Jean” (Dean Biker jean), and imported a small number into New Zealand as a “talker” to see if the product would sell. The respondent alleged that Jeanswest Australia had copied the Elwood design, and that the appellants, Jeanswest Corporation (New Zealand) Ltd, had breached its copyright by importing and selling the Dean Biker jean in New Zealand.

The appellants denied that the Dean Biker was an infringing copy of the respondent’s Elwood jean, and claimed that the jean was designed by a Mrs Garfield. Part of the evidence included a “sample order” where Mrs Garfield set out her instructions for the making of the Dean Biker jean.

The High Court Judge found that Mrs Garfield had based her design on the respondent’s Anniversary jean. Further, it found the appellants liable for secondary

infringement. The High Court granted an injunction restraining further infringement, but declined to make a finding on primary infringement. As the Judge considered that the importation had occurred due to a lack of knowledge of the New Zealand law rather than for the “sinister” purpose of attempting to see whether the appellant could sell the Dean Biker jeans in New Zealand undetected, the Judge awarded the respondent only minimal damages (\$325) representing the profits from the sale of the 62 pairs of the Dean Biker jeans in New Zealand.

**Held**, (1) the gravamen of the respondent’s complaint was that the appellant’s Dean Biker jean infringed its copyright in those copyright works by reproducing the collocation of four of the five distinctive design features or elements. It is not in dispute that Jeanswest Australia designed the infringing Dean Biker jean. The Judge found the Anniversary jean was, on a balance of probabilities, the original sample used by Mrs Garfield when preparing the instructions in the same order. The jeans look similar and the drawings of the two pairs of jeans in evidence show similar looking garments. A comparison of the measurements of the two pairs of jeans showed how similar they were. The respondent’s evidence established both substantial similarity and also access (or the opportunity) to copy. At that point in the trial the evidential burden to refute copying shifted to the appellant. The appellant did not refute copying. The appellant was not able to produce any other denim design pre-dating the Dean Biker which incorporated the collocation of design features that were in the Anniversary jean. Significantly, the appellant elected not to call any of the three people who could give evidence as to the way in which the appellant had gone about designing its Dean Biker jean. The appellant did not cross-examine Mrs Garfield or ask her to confirm the work reflected in the sample order was her original creative design. Yet these were submissions that counsel now urged the Court to accept. (paras 33, 38, 41, 53, 54, 57, 59, 65, 66)

(2) The second and closely associated question was whether the Judge had erred in finding the Dean Biker jean infringed the respondent’s copyright in the drawings. The appellant had copied four of the five main design features of the respondent’s Anniversary jean and deliberately omitted the fifth. Those four features comprised a substantial part of the collocation of the five features. The essence of the design was copied. Although it is unnecessary to go further, the evidence at trial established copying at a much more detailed level. Instructions recorded in the sample order further demonstrate the detailed copying of the Anniversary jean which the appellant undertook. The respondent has established that the appellant copied its Anniversary jean — not just four of the five essential features, but also many if not most of the details of the design. The Judge had not erred in the way he went about assessing whether the appellant had copied the original work. (paras 67, 69-71)

(3) When the trial began, the respondent opened their case on the basis both primary and secondary infringement of copyright were alleged. The chronology demonstrates that primary infringement was not dealt with in the High Court in a satisfactory manner. If counsel considered that the appellant was not facing a claim of primary infringement he ought to have asked the Judge for a ruling to that effect. The submissions that primary infringement was not pleaded or argued was not accepted. The appellant sought a decision from the Court of Appeal that the respondent should not be entitled to the fruits of a case it had pleaded and argued in the High Court. That, to use the Supreme Court’s words, “would be quite unfair” and was rejected. As primary infringement was pleaded and argued in the High Court, and because it is not clear why the Judge did not rule on it, the Court of Appeal would do so. The Court of Appeal had no doubt that primary infringement by the appellant was established. The Judge’s finding that the appellant had copied the respondent’s

Anniversary jean was upheld. When coupled with the appellant's admission that it sold the Dean Biker jeans in New Zealand, this meant that primary infringement had been established. (paras 76, 78, 79, 82, 86, 87, 89, 96, 99, 100)

*Henkel KGaA v Holdfast New Zealand Ltd* [2006] NZSC 102, [2007] 1 NZLR 577, considered

(4) The word “knows” in ss 35(1)(a)(ii) and 36 of the Copyright Act 1994 connotes actual knowledge. On the other hand, the words “has reason to believe” in those two provisions involve constructive knowledge. Constructive knowledge is appropriately imputed if a party wilfully closes its eyes to the obvious, or wilfully fails to make those inquiries that an honest and reasonable person in the circumstances would make. These are the steps which result in the conclusion that the appellant was liable for secondary infringement. First, Jeanswest Australia and therefore the appellant knew the Dean Biker was a copy of the respondent's Elwood design. Secondly, the Dean Biker was imported into New Zealand and sold to the public here. The Judge inferred that Jeanswest Australia had assumed that New Zealand copyright law was the same as Australian law, and it did not obtain the advice or make the inquiries necessary to inform itself as to the different copyright position in New Zealand. As a substantial New Zealand retailer, the appellant ought reasonably, in the circumstances, to have informed itself about the copyright position in New Zealand before importing the Dean Biker jeans into New Zealand and selling them here. As it did not do so, the appellant was not able to make out its plea that it “neither knew nor had reasonable ground to know that their product was an infringing copy”. The appellant was thus liable for secondary infringement. (paras 110, 111)

*Husqvarna Forest & Garden Ltd v Bridon New Zealand Ltd* [1997] 3 NZLR 215 (HC), approved

(5) Two considerations persuaded the Judge not to award the respondent additional damages under s 121(2) of the Copyright Act 1994. The first consideration was the appellant's motive where the Judge was satisfied that there was no sinister theory in the infringement. The second was his view that the infringement had occurred through ignorance of New Zealand's different copyright law. This was a flagrant infringement in that this was blatant copying by the appellant. No other assessment is open on the evidence of the copying process for the Dean Biker jeans documented in the sample order, coupled with Mrs Garfield's explanation as to how she went about the process of designing jeans. Three points emerge from evidence given for the respondent: (a) a fashion business which simply copies the designs of other labels does not incur the significant design costs; (b) a business which copies can also quite easily find out which designs have sold well, and copy those; and (c) when the respondent's original designs are copied, “the kudos of owning an original G-Star design is lost”. The damage is exacerbated because the copies tend to be produced and distributed in large volumes, diminishing the uniqueness of the brand and are usually sold (as in this case) at cheaper prices. Benefit to the appellant and damage to the respondent are the two sides of the same infringement coin. (paras 120-122, 124-126, 128)

(6) The following further circumstances were relevant when assessing whether an award of additional damages should be made: (a) the importation was very small, although it was a “talker” intended to test the market with a view to further importations if the jeans sold well; (b) the appellant immediately desisted selling the Dean Biker when it received a letter from the respondent's solicitors although by then all of the jeans had been sold; (c) aspects of the way the appellant defended the claim reflected badly on it. First, there was the very late — and then almost incidental — disclosure of the sample order which became at trial perhaps the most critical document. Secondly, the appellant successfully opposed the respondent's application

to join Jeanswest Australia as a party on the grounds that the joinder would require the schedule fixture to be vacated and that a key witness was unlikely to be available at a later trial. The appellant then decided not to call that witness, and it transpired she was not working for them at the relevant time. Thirdly, there was the glaring inconsistency between the appellant's persistent denials of copying on the one hand, but on the other hand, its decision not to call witnesses who could have substantiated that denial. While the trial Judge accepted that the importation was explained by ignorance of New Zealand's copyright law, the corollary is that the appellant lacked an effective system for establishing whether this importation breached New Zealand copyright law. The trial Judge did not factor in these considerations when deciding not to award additional damages. Balancing all the relevant factors, and taking the level of the awards in previous cases into account, an award of \$50,000 additional damages ought to have been made. (paras 129-131)

(7) The trial Judge made an order restraining the appellant from copying the copyright works and from selling, manufacturing, importing or otherwise disposing or dealing with the infringing Dean Biker jeans. However, as it had been on sale since 1996, it was "applied industrially" in terms of s 75(4) of the Copyright Act 1994 and copyright protection ended in 2012. The trial Judge was wrong to grant a permanent injunction. The appellant's appeal was allowed to the extent that the permanent injunction was set aside. The appeal was otherwise dismissed. The respondent's cross-appeal was allowed. The appellant was liable for primary infringement of the copyright works, and under s 121(2) of the Act, the respondent was awarded \$50,000 additional damages. (paras 133-135, 139, 144-146)

### Cases referred to

- Aristocrat Technologies Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* [2007] FCAFC 40, (2007) 157 FCR 564
- Brintons Ltd v Feltex Furnishings of New Zealand (No 2)* [1991] 2 NZLR 683 (HC)
- Callista Group Ltd v Zhang* HC Auckland CIV-2003-404-5127, 11 July 2005
- Designers Guild v Russell Williams (Textiles) Ltd, (T/A Washington DC* [2000] UKHL 58, [2000] 1 WLR 2416, [2001] 1 All ER 700
- Electroquip Ltd v Craigco Ltd (No 2)* HC Auckland CIV-2006-404-6719, 3 September 2008
- Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd* [2009] FCA 633, (2009) 81 IPR 378
- Feltex Furnishings of NZ Ltd v Brintons Ltd* (1992) 4 NZBLC 102,913 (CA)
- Henkel KGaA v Holdfast New Zealand Ltd* [2006] NZSC 102, [2007] 1 NZLR 577
- Hickman v Turn and Wave Ltd* [2011] NZCA 100, [2011] 3 NZLR 318
- Husqvarna Forest & Garden Ltd v Bridon New Zealand Ltd* [1997] 3 NZLR 215 (HC)
- International Business Machines Corporation v Computer Imports Ltd* [1989] 2 NZLR 395, (1989) 3 TCLR 163 (HC)
- Inverness Medical Innovations Inc v MDS Diagnostics Ltd* (2010) 93 IPR 14 (HC)
- Jessett Properties Ltd v UDC Finance Ltd* [1992] 1 NZLR 138 (CA)
- May v May* [1982] 1 NZFLR 165 (CA)
- Norm Engineering Pty Ltd v Digga Australia Pty Ltd* [2007] FCA 761, (2007) 162 FCR 1
- Review Australia Pty Ltd v New Cover Group Pty Ltd* [2008] FCA 1589, (2008) 79 IPR 236
- Seafolly Pty Ltd v Fewstone Pty Ltd* [2014] FCA 321, (2014) 313 ALR 41
- Shirley v Wairarapa District Health Board* [2006] NZSC 63, [2006] 3 NZLR 523

*Sillitoe v McGraw-Hill Book Co (UK) Ltd* [1983] FSR 545 (Ch)  
*Skids Programme Managements Ltd v McNeill* [2012] NZCA 314, [2012] 1 NZLR 1  
*Sunlec International Pty Ltd v Electropar Ltd* HC Auckland CIV-2007-404-5044  
*Venus Adult Shops Pty Ltd v Fraserside Holdings Ltd* [2006] FCAFC 188, (2006) 157 FCR 442  
*Wellington Newspapers Ltd v Dealers Guide Ltd* [1984] 2 NZLR 66 (CA)  
*Wham-O Manufacturing Co v Lincoln Industries* [1984] 1 NZLR 641 (CA)  
*World TV Ltd v Best TV Ltd* HC Auckland CIV-2005-404-1239, 6 September 2006  
*ZYX Music GmbH v King* [1995] 3 All ER, [1995] FSR 566 (Ch)

## Appeal

This was a successful cross-appeal by the respondent against a High Court decision not to find the appellant liable for primary infringement of a copyright works, while the appeal by the appellants was allowed to the extent that a permanent injunction granted by the High Court was set aside.

*C L Elliott QC* and *A W Johnson* for appellant  
*D L Marriott* and *I Finch* for respondents

*Cur adv vult*

The judgment of the Court was delivered by

## WILD J

### Introduction

[1] On a wet day in August 1995 Monsieur Morisset was sitting in a café in the south of France. Monsieur Morisset is a French clothes designer. Out the window he noticed a motorcyclist, his trousers sodden by the rain. Inspired by the way the rain had stretched out the motorcyclist’s trousers over his knees, with the trousers “crinkled and crumpled in the hollow of the knee”, Monsieur Morisset sat at his café table for about half an hour sketching out a design for a pair of biker jeans.

[2] At the time Monsieur Morisset was contracted exclusively to the respondent companies (G-Star) as a designer and stylist of clothes. Under that contract Monsieur Morisset developed the design of the Biker jeans to the point where it could be manufactured. He had intended to name the design after the famous motorcycle rider, Mike Hailwood. Along the way the “H”, not sounded in French, became lost and the name corrupted to “Elwood”.

[3] The Elwood was launched at a clothes fair in Cologne, Germany in 1996. G-Star asserts it has since assumed iconic status in the world of jeans. Some 40 variants of the Elwood followed<sup>1</sup> and, as of 2011, some 13 million pieces have been sold worldwide.<sup>2</sup>

1 In his oral submissions, Mr Elliott QC said there were now 30 variants of the Elwood jean, but in the Brief of Evidence of Piet Poelmann dated 2 October 2013 at [13] it was deposed that 40 variations to the Elwood design have been promoted and sold in New Zealand. Mr Poelmann is the Country Manager of G-Star for Australia and New Zealand.

2 Save in one respect, this information is drawn from Sabine Kuhn et al *The Denim Bible Jeans Encyclopaedia III* (Sportswear International, Milan, 2011), quoted by Heath J in *G-Star Raw C.V. v Jeanswest Corporation (New Zealand) Ltd* [2013] NZHC 2679 at [19] [High Court judgment]. We have updated the number of Elwood jeans sold from 10 million to 13 million, based on the evidence given at trial by Mr Piet Poelmann, the Country manager of G-Star for Australia and New Zealand.

[4] At the root of this case is G-Star's complaint that Jeanswest Corporation Pty Ltd<sup>3</sup> copied its Elwood design to produce its own Dean Biker Slim jean (Dean Biker).

[5] G-Star alleged the appellant, Jeanswest Corporation (New Zealand) Ltd (Jeanswest NZ) then infringed its copyright, including by importing into New Zealand and selling here 63 pairs of the Dean Biker.<sup>4</sup> Although Jeanswest NZ admits it imported and sold the Dean Biker, it denies the Dean Biker was an infringing copy of G-Star's Elwood.

[6] G-Star's allegation of infringement of its copyright came on for trial before Heath J in the High Court at Auckland in September/October 2013. In a judgment he delivered on 15 October 2013 Heath J found Jeanswest NZ liable for secondary infringement, but not liable for primary infringement.<sup>5</sup> The Judge made a declaration that Jeanswest NZ had infringed, granted an injunction restraining further infringement, and awarded G-Star damages of \$325 being the profits Jeanswest NZ had made on selling 62 of the 63 jeans. Heath J declined to award G-Star any additional damages as a result of Jeanswest NZ's infringement.

[7] This judgment did not satisfy either party; Jeanswest NZ appealed and G-Star cross-appealed.

### The issues

[8] These two appeals give rise to seven issues. In setting these out we emphasise that they are our own distillation from the imprecise, overlapping list of issues filed by the parties, at least for Jeanswest's appeal. Our list of issues is:

- (1) *Copyright work*: did the Judge err in the way he identified the nature of the copyright work? Essentially, what was the copyright work?
- (2) *Copying*: Did the Judge err in the way he went about assessing whether Jeanswest NZ had copied the original work?
- (3) *Primary infringement*: In finding no primary infringement by Jeanswest NZ, did the Judge err?
- (4) *Secondary infringement*: Conversely, did the Judge err in finding there was secondary infringement by Jeanswest NZ?
- (5) *Additional damages*: Was Heath J wrong not to award G-Star additional damages?
- (6) *Permanent injunction*: Was Heath J wrong to grant G-Star a permanent injunction?
- (7) *Costs in the High Court*: Heath J awarded increased costs to G-Star. Did he err in doing that?

### The broad factual background

[9] In dealing with some of the issues we will need to revert to the facts in more detail. So what follows is deliberately a brief and general outline.

[10] We began this judgment by outlining the incident in the café which led to Monsieur Morisset designing the Elwood jean for G-Star. We explained Monsieur Morisset was designing under contract exclusively for G-Star at the time.

3 See [13] below.

4 Only 62 Dean Biker jeans were sold in New Zealand. One was unaccounted for, presumed stolen by a shoplifter.

5 High Court judgment, above n 2.

[11] In 2005 Monsieur Morisset, still under contract to G-Star, designed a new version of the Elwood jean, to mark the 10th anniversary of the launch of the Elwood in 1996. This is the “Anniversary” jean.

[12] G-Star licenses companies to distribute its products in various parts of the world. The second respondent, G-Star Australia Pty Ltd, has exclusive distribution rights for G-Star branded products in Australasia.

[13] The Jeanswest companies are ultimately owned by Glorious Sun Enterprises Ltd, a Bermudan registered company. Jeanswest Corporation Pty Ltd has the design and marketing functions. Jeanswest Wholesale Pty Ltd has the manufacturing function. Unless we need to distinguish, we will refer to these two companies as Jeanswest Australia.

[14] Jeanswest NZ is effectively a branch office of Jeanswest Australia. Its functions are limited to selling in New Zealand the goods Jeanswest Australia decides to despatch to it.

[15] Jeanswest Australia did its design work in Australia. There was evidence at trial that Jeanswest Australia’s design staff made trips to fashion centres in Europe and elsewhere and returned with garments to use as the basis for designing its own jeans. One of Jeanswest’s designers, Mrs Garfield (née Ms Rebecca Lawson), gave evidence she personally had gone on such trips and had been involved in up to 80 sample orders a year, normally involving an original sample for each style.<sup>6</sup> An original sample was normally a jean manufactured by another company which was sent to Jeanswest’s manufacturers in China along with design instructions.

[16] Mrs Garfield designed Jeanswest’s Dean Biker jean. Heath J found Mrs Garfield had based her design of the Dean Biker on G-Star’s Anniversary jean. We revert to the detail of the design process Mrs Garfield followed in dealing with Issue 2.

[17] Once the design of the Dean Biker was complete, Jeanswest Wholesale Pty Ltd ordered 374 pairs from its Chinese manufacturer and instructed that 63 of these be air freighted to New Zealand, the balance to Australia. Jeanswest NZ received the 63 pairs of Dean Bikers here and arranged to distribute them to Jeanswest stores around New Zealand for sale.

[18] Three hundred and seventy four jeans was a good deal less than Jeanswest’s normal run of at least 2,000 pairs of jeans. In evidence Mr Adam Lloyd, General Manager Product for Jeanswest Corporation Pty Ltd, explained the small number of Dean Bikers represented a “talker”. This is industry jargon describing a small number of garments marketed in order to gauge if the market was interested.

[19] Jeanswest Australia launched the Dean Biker simultaneously in Australia and New Zealand on 14 January 2010. It remained on sale in New Zealand until about 18 November 2011, a period of almost two years.

[20] In July 2010 a G-Star representative noticed the Dean Biker on sale in a Jeanswest store in New Zealand and purchased a pair.

[21] A letter from G-Star’s solicitors followed on 9 November 2010, calling on Jeanswest NZ to stop selling the Dean Biker and to undertake not again to sell the Dean Biker. Jeanswest NZ’s solicitors replied on 22 November 2010 agreeing to those demands, but denying the breach of copyright.

[22] Further correspondence between the parties’ solicitors ensued. This did not result in a resolution acceptable to G-Star.

[23] G-Star filed its proceeding against Jeanswest NZ on 27 May 2011.

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<sup>6</sup> Notes of Evidence at 105/4-6 and 119/31-120/23 [NoE].

[24] During the interlocutory stages of the proceeding Jeanswest NZ discovered only 10 documents, some of them quite heavily redacted.<sup>7</sup>

[25] Applications for further discovery by Jeanswest NZ and for joinder of the two Jeanswest Australia companies mentioned in [13] above followed. In the course of those applications Jeanswest discovered the Sample Order to which we revert in [35](a). This was the document on which Mrs Garfield recorded the design process she followed for the Dean Biker. That Sample Order became a critical document at trial, and remains so on this appeal.

[26] Venning J dismissed G-Star's application to join the two Australian companies,<sup>8</sup> essentially on the ground that it came too late — the scheduled start of the trial was only a month away at that stage. Venning J gave his reasons in a judgment he delivered on 27 August 2013.<sup>9</sup> We revert to that judgment in [73]-[74] below in dealing with Issue 3.

**Issue 1: Copyright work: did the Judge err in the way he identified the nature of the copyright work? Essentially, what was the copyright work?**

[27] These were the features of G-Star's second amended statement of claim dated 6 September 2012 (the statement of claim), on which Heath J tried the case:

- (a) The copyright works owned by G-Star were the original artistic works being the design drawings and manufacturing drawings for a denim jean design "5620 Elwood" (the Elwood design). Copies of the drawings and photographs of the jean were annexure A to the statement of claim.
- (b) Particulars were given of the creation of the Elwood design in August 1995 by M Morisset, when designing under contract to G-Star.
- (c) The copyright works depict a garment with distinct design features, most significantly:
  - the oval shaped knee pads;
  - the horizontal stitching running across the back of each knee;
  - the straight line of double stitching coming from the hip to the crotch, diagonally across the front of the thigh of each leg;
  - the circle-shaped stitching on the back of the jeans (the saddle pad); and
  - the heel guards at the rear of each leg.
- (d) Jeanswest's Dean Biker infringed G-Star's copyright by reproducing all these features except the saddle pad, and in the same position and relative proportions as the Elwood design.
- (e) The key allegation of infringement was:<sup>10</sup>

Reproduction of this collocation of features amounts to the taking of a substantial part of [the Elwood design] as depicted in the Copyright Works.

- (f) Comparative photographs of the Elwood design and the Dean Biker were annexure C to the statement of claim.

7 As Associate Judge Bell recorded in a judgment dealing with discovery, this low number "is explained by the fact that the parties had reached agreement as to the scope of discovery ... The parties had agreed to make what they termed 'essential' discovery for the purpose of alternative dispute resolution, it being understood that there might be more extensive discovery if the matter could not be resolved by alternative dispute resolution": *G-Star Raw C.V. v Jeanswest Corporation (New Zealand) Ltd* [2013] NZHC 1251 at [6].

8 The two companies identified in [13] above.

9 *G-Star Raw C.V. v Jeanswest Corporation (New Zealand) Ltd* [2013] NZHC 2179.

10 Second amended Statement of Claim, 6 September 2012, at [8.1.3].



[28] When summarising G-Star’s allegation of copyright infringement, Heath J stated “[G-Star] contends that the Dean Biker jean is a copy, or a copy of a substantial part, of (what is known as) the Elwood Anniversary jean (the Anniversary jean)”.<sup>11</sup>

[29] The Judge then noted G-Star’s pleading that the design and manufacturing drawings for the Elwood jean constituted the copyright works. He summarised the annexures to the statement of claim.<sup>12</sup> Then he set out the key parts of the statement of claim we have summarised in [27](c) and (e) above — the five distinctive design features and the allegation of reproduction of the collocation of those features.<sup>13</sup>

[30] Mr Elliott QC argued there were several overlapping errors in this approach. First, the Judge overlooked the side view of the drawings showing the Z shaped three-dimensional effect. The Judge noted the drawings annexed to the statement of claim “depict a front and back view of the Elwood jean”, and reproduced those front and back views in his judgment. Secondly, the annexures to the statement of claim depicted the Elwood Blue jean, whereas G-Star relied at trial upon its Anniversary jean. Thirdly, the Judge’s reference to the design features depicted in the drawings annexed to the statement of claim suggested he thought those were the original drawings. Mr Elliott was at pains to emphasise that the pleaded drawings (those annexed to the statement of claim) had not been done by Monsieur Morisset. Indeed in the course of his evidence Monsieur Morisset said of the drawing: “The person that makes this is stupid at drawing ... this is not a technical drawing. It’s not a effective technical drawing of the pants”.<sup>14</sup> Mr Elliott posed the rhetorical question: if detailed technical drawings exist can a plaintiff rely, not on them, but on a simple sketch deriving from the original? He submitted those errors resulted in the Judge misdirecting himself and failing to assess both originality and infringement — whether Jeanswest had taken the “essential features” of the copyright works.<sup>15</sup>

[31] After identifying the issues he needed to decide, Heath J turned in more detail to the Elwood design drawings. He noted the original Elwood design drawings had been lost, so that G-Star needed to prove copyright in the original artistic work through Monsieur Morisset. Monsieur Morisset gave evidence from Amsterdam by video link. After summarising the background in somewhat more detail than we have done in [1]-[3] and [11], the Judge noted Monsieur Morisset’s confirmation of “the five key design elements of the Elwood jean”.<sup>16</sup> He noted other aspects of Monsieur Morisset’s evidence, including points emerging from Mr Elliott’s cross-examination. The Judge then stated:

[21] It was not put specifically to Mr Morisset that he did not produce the drawings on which G-Star relies to establish copyright. While Mr Morisset tended to distance his role as a designer from involvement in the production phase, there is no evidence to suggest that anyone else, within G-Star or not, authored the drawings on which G-Star rely. I find that they were designed, drawn and

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11 High Court judgment, above n 2, at [5].

12 At [6].

13 At [7] and [8].

14 NoE at 33/35-34/3. Mr Marriott emphasised to us that Monsieur Morisset made these comments when being cross-examined about the line drawing of the Elwood design which is in vol 4 at 1405 of the Case on Appeal. That is not the drawing we have reproduced in [54] below.

15 Mr Elliott drew the expression “essential features” from this Court’s judgment in *Wham-O Manufacturing Co v Lincoln Industries* [1984] 1 NZLR 641 (CA) at 670. This Court agreed with the trial Judge that there was evidence of the copying “of a substantial part of the Wham-O copyright in the copying of the rings or ribs which were the essential features and substance of the Wham-O design”.

16 At [18].

prepared by Mr Morisset and that he too created the Anniversary jean on the basis of that original design.

[32] Mr Elliott also criticised this part of the judgment, suggesting it conflated and confused four separate issues: what the original copyright work is; who the author of the original work is; whether the same author is the author of the copyright drawings; and the level of originality involved in the pleaded copyright work as opposed to the original design drawings.

[33] We accept Jeanswest NZ was entitled to specificity as to the copyright work it had allegedly infringed. That is as much a matter of pleading as it is of copyright law. But in our view Jeanswest NZ had the requisite specificity, and Mr Elliott's points are an attempt to set up confusion where there was none. The copyright works were sufficiently pleaded and particularised in [5]-[8] of the statement of claim. The gravamen of G-Star's complaint was that Jeanswest NZ's Dean Biker jean infringed its copyright in those copyright works by reproducing the collocation of four of the five distinctive design features or elements. That key allegation was clearly pleaded and was the focus of the trial. It was also pleaded that annexure A to the statement of claim comprised "copies of the copyright works". Any doubt or confusion about that pleading could and should have been resolved by a request by Jeanswest NZ for particulars.

[34] In terms of the clarity of G-Star's case, it is significant that G-Star's solicitors forwarded a copy of an affidavit sworn by Monsieur Morisset to Jeanswest's solicitors on 15 February 2012 — some 19 months before trial. Mr Marriott advised us that affidavit was in identical terms to Monsieur Morisset's Brief of Evidence for trial. In his brief Monsieur Morisset stated:

- He created the design for a pair of jeans known as "Elwood" in August 1995.
- He had not been able to locate the original drawings he created for the Elwood design in August 1995. He believed they had either been lost or destroyed.
- He created the production file of the Elwood design in August 2005 (this was annexure A to the statement of claim, including the front and back view drawings of the Elwood jean).
- The Elwood design he created in August 2005 was simply a new production file for the Elwood design for the new collection to be released that season but no changes were made to the jeans design.

The statement of claim alone, but certainly in combination with Monsieur Morisset's statement, left no room for confusion in relation to the copyright work.

[35] We do not accept Mr Elliott's submission that G-Star's reliance on the Anniversary jean confused Jeanswest. The position was this:

- (a) On 27 August 2013 — less than a month before trial — Jeanswest NZ discovered the sample order relating to its Dean Biker jean. That order was effectively Jeanswest Australia's design file. This very late discovery was noted by Heath J.<sup>17</sup>
- (b) Only after inspecting Jeanswest Australia's sample order did G-Star's expert witness, Mr Smith, appreciate the significance of the Anniversary jean — that it had been used as the original sample to create the Dean Biker jean.

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<sup>17</sup> At [28] and [70].

- (c) Heath J accepted Monsieur Morisset’s evidence that the Anniversary jean was based on his original Elwood design. The Judge held:<sup>18</sup>

I am satisfied that the Anniversary jean was based on the original Elwood design. Therefore, the Anniversary jean is to be regarded as a 3-dimensional reproduction of that original design.

G-Star relied on the Anniversary jean to establish a causal link between the original copyright works and Jeanswest’s infringing Dean Biker jean. Thus:

- The design drawings for the Elwood design annexed to the statement of claim were copies of Monsieur Morisset’s (lost or destroyed) original design drawings;
  - G-Star’s Anniversary jean in turn was a 3-dimensional reproduction of the Elwood design; and
  - Jeanswest’s Dean Biker jean was a copy of the Anniversary jean.
- (d) G-Star never relied on its Anniversary jean as the copyright work.
- (e) Mr Elliott submitted “[o]n the opening day of the trial [G-Star] advised they were relying on a so-called Anniversary jean (Exhibit 3) as its comparative jean as opposed to the Elwood ... jean (Exhibit A) it had supplied under discovery”. Any inference that this was the first advice to Jeanswest is not correct. Mr Elliott did not gainsay Mr Marriott’s advice that the parties’ solicitors exchanged correspondence on 12 September 2013 about the significance of the Anniversary jean. In his letter, G-Star’s solicitor Mr Finch advised “the Anniversary sample will be produced as an exhibit through our expert witness”.

[36] For all these reasons we answer Issue 1: No, the Judge did not err in the manner in which he identified the copyright work.

## **Issue 2: Copying: did the Judge err in the way he went about assessing whether Jeanswest had copied the original work?**

[37] Copying by Jeanswest NZ was not alleged. We refer to the detail of the pleadings in [75] below, in dealing with Issue 3. We explain there that the allegation against Jeanswest NZ was selling “copies of the work to the (New Zealand) public”. That is the relevance of Issue 2. “Copying” is defined in s 2 of the Copyright Act 1994 (the Act) as meaning “reproducing ... the work in any material form”, and “copy” has a corresponding meaning.<sup>19</sup>

[38] It is not in dispute that Jeanswest Corporation Pty Ltd designed the infringing Dean Biker jean. In dealing with Issue 2 we will refer simply to “Jeanswest”. Strictly, that is a reference to Jeanswest Corporation Pty Ltd.

[39] Heath J’s approach was to consider, in turn:

- (a) The evidence as to the design of the Elwood and, 10 years later, the release of the Anniversary jean; and
- (b) The evidence as to the design of Jeanswest’s Dean Biker jean.

[40] Dealing with the Elwood, the Judge traversed the history we have summarised in [9]-[26] above, and referred to Monsieur Morisset’s evidence, including under cross-examination. He concluded with the finding we have set out at [31] above. In the course of doing that the Judge quoted from Sabine Kuhn l et al *The Denim Bible Jeans*

<sup>18</sup> At [64].

<sup>19</sup> Copyright Act 1994, s 2, definition of “copying”, para (a).

*Encyclopaedia III* (Sportswear International, Milan, 2011). He set out a passage describing Monsieur Morisset’s design of “the iconic G-Star Elwood”, emphasising this passage:

today the G-Star Elwood is widely adopted, appreciated and recognised as G-Star’s signature piece with 10 million pieces sold worldwide. The design of the G-Star Elwood fuses articulated-knee design cues from motorcross trousers with the functionality of workwear painter’s pants. With this design, G-Star mapped out an altogether new way of thinking about denim.

[41] The Judge then turned to the design process for the Dean Biker jean. These important points emerge from this comparatively lengthy section of the judgment:

- (a) The pregnancy of Ms Laidlaw, described by Jeanswest’s Melbourne-based lawyer as “a key witness”, was advanced by Jeanswest as a reason for opposing adjournment of the trial. But, when the Court directed that the trial proceed as scheduled, Jeanswest did not call Ms Laidlaw as a witness.<sup>20</sup> It transpired she was not even employed by Jeanswest when the Dean Biker jean was designed.
- (b) Jeanswest NZ elected not to call either of the two people who could have given material evidence about the design process for the Dean Biker jean.<sup>21</sup> The first was Mrs Garfield who had prepared the sample order, which the Judge described as “a critical document”. The second was Mr Zurga-Daddi, who was General Manager — Product for Jeanswest at the time the Dean Biker jean was designed and was Mr Lloyd’s predecessor.<sup>22</sup> Mrs Garfield was called by G-Star. In assessing her evidence, the Judge took into account her cautious approach, understandable because she was still employed by Jeanswest Australia, and the inability of counsel for G-Star to cross-examine her as to how she had gone about designing the Dean Biker jean.<sup>23</sup>
- (c) One of the sets of measurements Mrs Garfield included in the sample order was taken from an original sample, which the Judge found was a pair of jeans obtained by Jeanswest’s design staff while visiting overseas fashion shows in mid-2009. It was clear from the instructions Jeanswest sent to its Chinese manufacturer that it intended to use the original sample as the primary basis for the new product.<sup>24</sup> To demonstrate this, the Judge detailed Mrs Garfield’s instructions as to thread colour, stitch length and base colour.<sup>25</sup> In her final instructions to the manufacturer, sent when returning the second sample, Mrs Garfield commented she was pleased at the similarity between the original sample and the new product.<sup>26</sup>
- (d) The Judge noted, as an unusual feature of the production process, manufacture of only 374 Dean Bikers, as opposed to the usual 2,000 minimum. He noted Mr Lloyd’s explanation that this was because Jeanswest was testing the market for interest, and his rejection that

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<sup>20</sup> High Court judgment, above n 2, at [26]-[27].

<sup>21</sup> There was a third person referred to in the evidence who could have given material evidence. We refer to this in [66] below.

<sup>22</sup> At [28]-[29].

<sup>23</sup> At [30]-[31].

<sup>24</sup> At [34]-[35].

<sup>25</sup> At [37].

<sup>26</sup> At [38].

Jeanswest wanted to gauge whether this small number of jeans was noticed in the stores to which they were sent.<sup>27</sup>

- (e) Heath J then turned to the Anniversary jean. If G-Star was to establish a causal link between its copyright in the Elwood design and any infringement, it must establish that the Anniversary jean was a three-dimensional reproduction of the original Elwood design.<sup>28</sup> Having analysed Monsieur Morisset's evidence, the Judge expressed himself as satisfied the Anniversary jean was based on the original Elwood design, so it could be regarded as a three-dimensional reproduction of that original design.<sup>29</sup>
- (f) Heath J considered next whether the Anniversary jean had been the original sample Jeanswest used to produce its Dean Biker jean. He detailed the experience and different areas of expertise of the parties' expert witnesses: Mr Smith for G-Star and Ms Gregory for Jeanswest NZ. He noted Mr Smith's firm view that the two jeans had a similar "look" and Ms Gregory's opinion that the Anniversary jean was not the original sample. Heath J set out the measurements for the Anniversary jean agreed by Mr Smith and Mrs Gregory during the trial, so that they could be compared with the measurements listed in the sample order. He mentioned Ms Gregory's evidence as to expected tolerances of measurement and the need to adjust for differences in sizes. The Jeanswest Harry Slim jean used as a block in the process of designing the Dean Biker had a 36 inch waist compared with 33 inches for the Anniversary jean inspected by Mr Smith and Ms Gregory.<sup>30</sup>
- (g) The Judge then found the Anniversary jean was, on a balance of probabilities, the original sample used by Mrs Garfield when preparing the instructions in the sample order.<sup>31</sup> Although the Judge explained his reasons in more detail, there were essentially five:
  - (i) The Dean Biker and the Anniversary jeans look similar, as do the drawings prepared by Monsieur Morisset and Ms Gregory;
  - (ii) The absence of evidence from Mr Zurga-Daddi as to what the original sample was and the inability of G-Star to cross-examine Mrs Garfield about that;
  - (iii) Each of the differences between the two jeans was explained by an express instruction given in the sample order by Mrs Garfield: to remove the saddle pad; to use a different thread colour; and to remove the rivet at the bottom of the fly;
  - (iv) All but one of the recorded measurements for the original sample are within the accepted tolerances of those measured on the Anniversary jean; and
  - (v) References in the sample order indicating the original sample was a version of the Anniversary jean made with a distressed wash and the black twill waistband lining — both features of versions of the Anniversary on sale at the time.

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27 At [40]-[41].

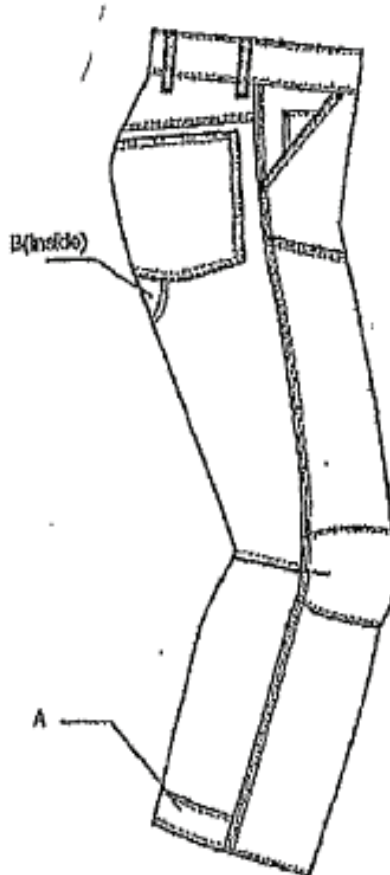
28 Copyright Act, s 2, definition of "copying", para (c). "Copying" includes the making of a copy in three dimensions of a two-dimensional work.

29 At [61]-[64].

30 At [65]-[73].

31 At [74] and [79].

[42] Mr Elliott submitted the Judge’s approach in assessing whether Jeanswest had copied G-Star’s Anniversary jean was wrong. We think six main points emerge from Mr Elliott’s supporting submissions. First, Mr Elliott submitted the Z shape or kick back in the leg of the jeans plus the seat pad were the two main design features of the Anniversary. By “kick back” Mr Elliott was referring to the combined effect of the knee pad and rear seam, shown when the jeans are viewed side on. Thus:



[43] Secondly, the Judge failed to address Jeanswest’s submission that G-Star had failed to establish a causal connection between the copyright work and the infringing Jeanswest Dean Biker jean. There was no connection because the pleaded drawings were insufficient to make a pair of jeans, so neither the Elwood nor the Anniversary could be derived from those drawings.

[44] Thirdly, the Judge failed to consider the fact that both jeans were representations of a common garment within the popular “biker” trend, which included knee pads. Instead, the Judge was “lured in” by the superficially attractive argument that the Elwood jean was iconic. Although that may have been the case a decade earlier, now it was only one of many biker style jeans on the market.

[45] Fourthly, the comparison the Judge made was flawed in three respects. Comparing the Anniversary jean was the wrong comparison because it is not the copyright work. The Judge’s comparison was anyway cursory, rather than the careful

comparison appropriate in a situation such as comparing two pairs of jeans. And the Judge was also wrongly influenced by Mr Smith's inappropriate opinion evidence that there had been copying. That was a decision for the Court, not for Mr Smith. Further, Mr Smith lacked the required expertise of a clothes designer or pattern maker, to whom design drawings are addressed.

[46] Fifthly, the Judge relied too heavily on superficial similarities between the two jeans and on the sketches of them in evidence. Those "high level" similarities were design concepts common in the field of biker jeans. By 2009 each of the five design features was found on many jeans, for example, the Jeanswest knee pad which was closer to the state of the art than the copyright work. The Judge made his assessment, not against the state of the art, but in isolation from it.

[47] Sixthly, if this Court accepts Heath J had taken the wrong approach, Mr Elliott urged it to make its own assessment. He submitted there were no issues of credibility standing in the way of our doing that. Mr Elliott then urged on us a list of factors which should feature in our assessment. One factor was the industry practice of gathering inspiration from other designs, as deposed to by Mr Lloyd for Jeanswest. Another factor was Mrs Garfield's evidence that the sample garment was not a G-Star garment but a Mossimo garment. If there was copying by Jeanswest, there were plenty of possible sources available. A third factor was the sample order. While he accepted the sample order was an unusual feature of this case, Mr Elliott "respectfully differ[ed] with the Court below on its conclusion" that the original sample was the Anniversary jean, submitting there emerged from the evidence "a clear picture of [the original sample] *not* being the Anniversary jean".

[48] Drawing all this together, Mr Elliott suggested Heath J may have started off with an adverse view of Jeanswest, focused on the five generic design features found in the copyright work and the similarity in some of the measurements, and concluded that copying must have happened. He submitted "the problem is that the Court did not subject the evidence to the type of robust realism needed and, with respect, ended up in a logical conundrum". Mr Elliott then elaborated on that conundrum: assuming the Anniversary jean was copied, the drawings for the Anniversary were not relied on to support the claim and none of the detail relied on was shown in those drawings. If the Elwood jeans correspond more to the copyright work (as arguably they do) there is no finding those jeans were copied and they could not have been copied if the Anniversary jean was copied.

*Was the original sample the Anniversary jean?*

[49] We deal first with Mr Elliott's challenge to the Judge's finding that the original sample was probably G-Star's Anniversary jean. If that finding is wrong, it would be difficult for G-Star to prove copying and establish the requisite link between the copyright work and the alleged infringing copy. We will turn then to the broader question whether Heath J erred in finding that Jeanswest, in designing and producing its Dean Biker jean, had copied a substantial part of G-Star's copyright works. The two questions considerably overlap.

(a) *Opportunity to copy*

[50] In *Henkel KGaA v Holdfast New Zealand Ltd*, in a passage headed *Proof of copying*, the Supreme Court said this:<sup>32</sup>

If the alleged infringer has had access to, and therefore an opportunity to copy, the copyright work, and the similarity between the works supports an inference of copying,

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<sup>32</sup> *Henkel KGaA v Holdfast New Zealand Ltd* [2006] NZSC 102, [2007] 1 NZLR 577 at [43] (footnote omitted).

it may well be appropriate for the Court to conclude, on the balance of probabilities, that there was indeed copying. This, of course, is subject always to the evaluation of any evidence there may be that no copying actually took place.

[51] In [47] above we referred to Mr Lloyd’s evidence that Jeanswest had followed the industry practice of buying jeans and other garments overseas and bringing them back to Australia as a basis for designing its own jeans. In answer to a question from the Judge, Mrs Garfield confirmed seeing G-Star products amongst the original samples used by Jeanswest on more than one occasion during her period as Denim Product Developer for Jeanswest.<sup>33</sup> Mrs Garfield equivocated about the jean she had used as the original sample. Initially she said she “and my memory is even more sketchy now so I couldn’t say anything with any certainty about the jean”.<sup>34</sup> She was then asked directly:<sup>35</sup>

Q You’ve just referred to the original sample. What was the original sample in this case?

A I cannot remember.

[52] A little later, referring to discussions with Jeanswest’s director Mr Wilkin Fon, she added “I couldn’t confirm whether it was [a G-Star jean] or wasn’t, I was pretty sure that it wasn’t”.<sup>36</sup> She then said her memory was that the original sample was “in fact not a G-Star jean, that it was a Mossimo jean”, but added “I’m not certain on that so — yep”.<sup>37</sup>

[53] So Mrs Garfield accepted she had available samples of G-Star jeans to copy but could — or would — neither confirm nor deny whether she had used a G-Star jean as the original sample when designing the Dean Biker.

(b) *Jeans look similar*

[54] We agree with Heath J that the G-Star and Jeanswest Dean Biker jeans in evidence look similar. The exhibits were available to us and we have looked at them carefully.<sup>38</sup> In [42] above we refer to Mr Elliott’s submission that the Z shape or kick back in the leg of the jeans plus the seat pad were the two main design features of the Anniversary. As Mr Elliott did not explain the basis for that submission, we are unsure what it is. The seat (or saddle) pad is identified in G-Star’s statement of claim as one of the five “most significant” design features or elements of the Elwood design, as is “the horizontal stitching running across the back of each knee”.<sup>39</sup>

[55] Jeanswest’s Dean Biker did not have the saddle pad, a difference to which we refer further in [62](a) below.

[56] In her evidence for Jeanswest Ms Gregory agrees the Dean Biker jeans also have the horizontal stitching running across the back of each knee, but suggests “the twin stitching on the Dean Biker jeans is in self-thread whilst the Elwood jeans are edge stitched in contrast thread”, giving “a different visual look”.<sup>40</sup> Although that

33 NoE at 126/22-30.

34 At 104/13-15.

35 At 108/12-14.

36 At 108/31-32.

37 At 109/2-4.

38 The exhibits available to us are Exhibits 2, 3 and A (G-Star jeans) and 1, C and D (Jeanswest jeans) and B. Although Exhibit B has a Jeanswest tag on it, the label is Jack-Jones. Our understanding is that Jack-Jones is one of several brands sold by the jeans company Bestseller.

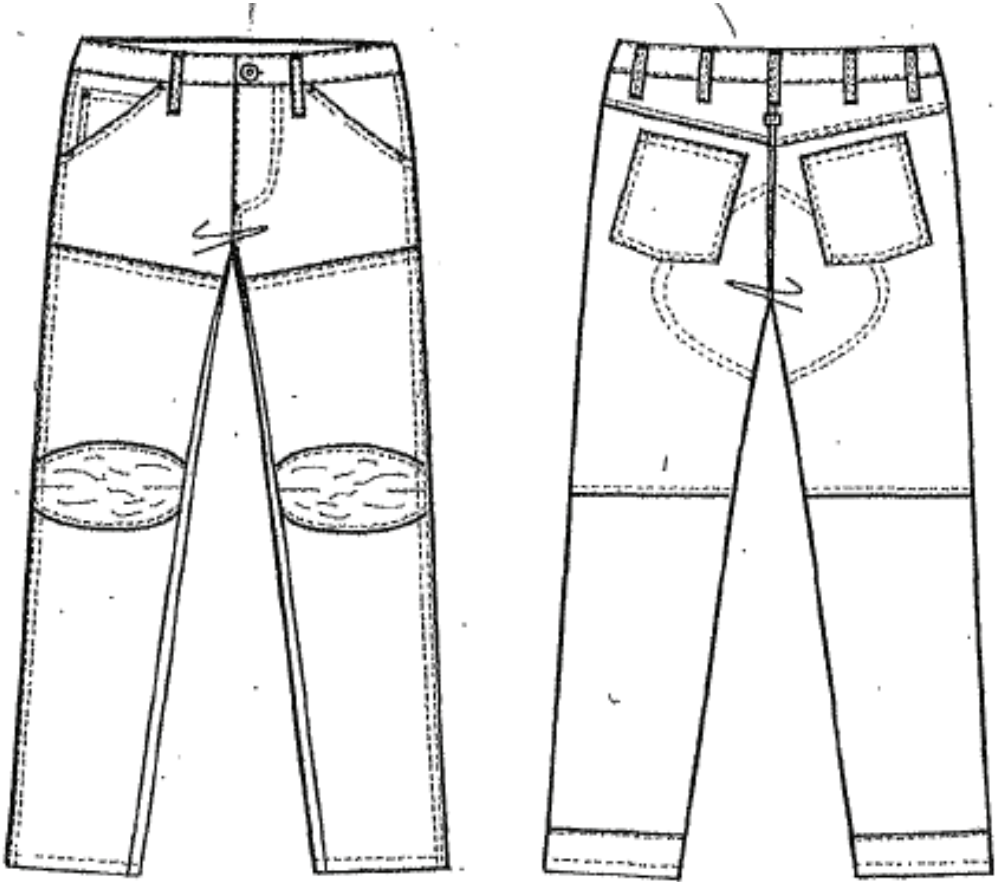
39 Second amended statement of claim, 6 September 2012, at [8.1.1.2] and [8.1.1.4].

40 Brief of Evidence of Sharon Gregory dated 3 October 2013 at [47] and [50]-[51].



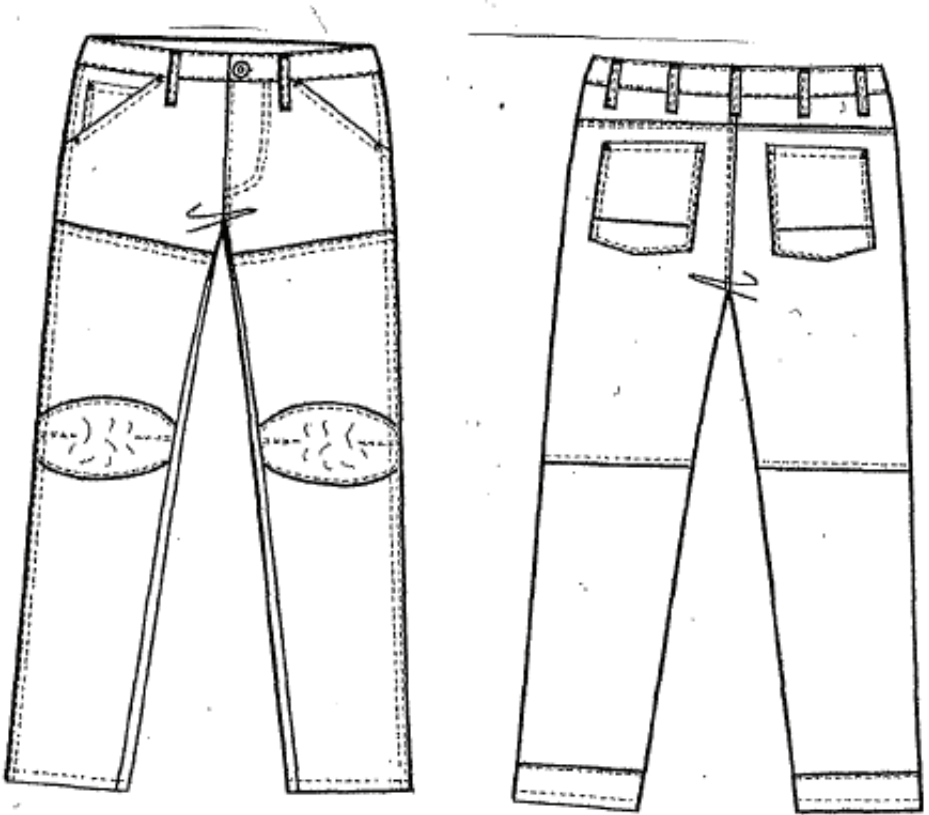
horizontal stitching is a component of the Z-shape or kick back, G-Star did not identify the Z-shape or kick back as such as one of the most significant design features of the Elwood. Nor did Ms Gregory suggest it was.

[57] We agree also with the Judge’s view that the drawings of the two pairs of jeans in evidence show similar looking garments. This is the drawing of the G-Star jean Ms Gregory included in her report comparing the two garments.<sup>41</sup> This is not the Anniversary jean but a more recent version which has narrower legs:



[58] And this is Ms Gregory’s drawing of the “Jeans West” Biker jean:

41 Ms Gregory’s report is by Verge Sportswear, the Australasian designer and manufacturer of women’s fashion clothing with whom she is employed. It is entitled *Comparison between G-Star and Jeanswest Jeans* and is dated 17 September 2013.



(c) *Similar measurements*

[59] We share Heath J's view that a comparison of the measurements of the two pairs of jeans showed how similar they were. The judgment under appeal contained two separate tables. For ease of comparison, we have combined these:

| <b>COMPARISON OF MEASUREMENTS (in cm)</b> |   |                        |                         |  |
|---|---|------------------------|-------------------------|--|
| <b>Measurement Points</b>                 |   | <b>Original Sample</b> | <b>Anniversary Jean</b> | <b>Dean Biker (Final measurement per sample order)</b> |
| M   | Waistband Height                          | 4.5                    | 5.0                     | 4.5  |
| N   | Front Pocket Width - along waistband seam | 10.5                   | 9.7                     | 10.5   |
| O   | Front Pocket Depth - along side seam      | 11.0                   | 11.7                    | 11.5   |

| <b>COMPARISON OF MEASUREMENTS (in cm)</b> |                                      |                        |   |  |
|---|--------------------------------------|------------------------|---|--|
| <b>Measurement Points</b>                 |                                      | <b>Original Sample</b> | <b>Anniversary Jean</b>   | <b>Dean Biker (Final measurement per sample order)</b> |
| P   | Back Pocket Width - along top edge   | 16.5                   | Ms Gregory measured the cloth of the pocket across the top edge: 16.7 Mr Smith measured the distance between the side edges of the pocket across the top edge: 16.1 | 16.5   |
| Q   | Back Pocket Length - through centre  | 20.0                   | 20.7  | 20.0   |
| R   | Yoke Height at Side Seam             | 6.5                    | 6.5 (visible)   | 6.5  |
| S   | Yoke Height at Centre Back           | 8.0                    | Centre Back Yoke Depth Right: 8.2<br>Centre Back Yoke Depth Left: 8.5   | 5.5  |
| T   | Belt Loop Width                      | 1.5                    | 1.5-1.6   | 1.3  |
| U   | Belt Loop Length                     | 7.5                    | 7.8-8.1   | 7.0  |
| V   | Watch Pocket Width - along top edge  | 9.0                    | 9.1   | 7.5  |
| W   | Watch Pocket Depth - along side edge | 10.0                   | 9.3   | 7.0  |

[60] Mr Marriott summarised his detailed, lengthy and at times confusing cross-examination of Ms Gregory by submitting to Heath J in closing that “all but one of the recorded measurements of the OS [original sample] are within acceptable tolerances of those measured on the Anniversary”.<sup>42</sup> Mr Marriott was presumably referring to the following exchange he had with Ms Gregory in the course of cross-examination:<sup>43</sup>

Q ... Do you accept, on the basis of what we know about the original sample or what we can deduce about the original sample, that the Anniversary edition jeans with those changes I mentioned, could have been the original sample?

A Yes except for the discrepancy in the depth of the waistband.

[61] In her Brief of Evidence, when identifying what she considered “the substantial differences” between the Elwood Anniversary jean and the Dean Biker jean, Ms Gregory noted:<sup>44</sup>

The G-Star jeans waistband depth is wider, being 5 cm as against Jeanswest jeans waistband, being 4.2 cm.

That is the only measurement difference she recorded as substantial.

42 At [21(i)] of Mr Marriott’s closing submissions to Heath J, 4 October 2013.

43 NoE at 459/28-32.

44 Brief of Evidence of Sharon Gregory dated 3 October 2013 at [82.3].

(d) *Differences resulted from deliberate instructions*

[62] Each of the significant differences is explained by a specific instruction in the sample order, chiefly:

- (a) To remove the saddle pad (“Pls delete only the panel at CD seat area through the middle of bk pkts”);
- (b) Some differences in thread colours (“Pls replace the brighter yellow thrd with thrd clr GNZ# 1925 Cinammon”); and
- (c) The deletion of the rivet at the bottom of the fly (“Pls delete the rivet at bottom of front fly”).

[63] There is also at least one instruction in the sample order which suggests the original sample was a version of the Anniversary jean with the distressed wash and black twill waistband lining which had been sold at the time. The sample order instructs: “Pls face WB with self fabric — not black twill as per OS”.<sup>45</sup>

(e) *Conclusion on the original sample*

[64] Drawing on a number of authoritative decisions such as that of the House of Lords in *Designers Guild v Russell Williams (Textiles) Ltd, (T/A Washington DC)*,<sup>46</sup> the authors of *Copinger and Skone James on Copyright* state this:<sup>47</sup>

Where there is substantial similarity, this is prima facie evidence of copying and also of access. Once a prima facie case is established in this way, it is often said that a shift in the evidential burden takes place which the party charged may refute by evidence of independent creation or by giving some alternative explanation for the similarities. The task of the judge is then to decide, on the evidence as a whole, whether or not there has been copying. This can be summarised by saying that proof of sufficient similarity, coupled with proof of the possibility of access, raises a prima facie case or inference of copying for the defendant to answer. This “shifting” of the burden of proof is merely one of plain, rational thought.

A substantially similar version of that passage contained in an earlier edition of that text was approved by the Supreme Court in *Henkel*.<sup>48</sup>

[65] We agree with Heath J that G-Star’s evidence established both substantial similarity and also access (or the opportunity) to copy. At that point in the trial the evidential burden to refute copying shifted to Jeanswest. We agree with the Judge that Jeanswest did not refute copying. Jeanswest was not able to produce any other denim design pre-dating the Dean Biker which incorporated the collocation of design features that were in the Anniversary jean. We agree that those features comprise a substantial part of the copyright works.

[66] Significantly, Jeanswest elected not to call any of the three people who could give evidence as to the way in which Jeanswest had gone about designing its Dean Biker jean. Although Mr Zurga-Daddi no longer worked at Jeanswest, there is no dispute that he still lived and worked in Melbourne and was readily contactable by Jeanswest. We have already referred to Mrs Garfield’s evidence, given for G-Star under subpoena. Mr Elliott did not cross-examine her. Thus, he did not put to her that she had not copied G-Star’s Anniversary jean or any other G-Star product. And he did not ask Mrs Garfield to confirm the work reflected in the sample order was her

<sup>45</sup> We understand an Anniversary jean with a black twill waistband was Exhibit 4. That exhibit is not amongst those available to us.

<sup>46</sup> *Designers Guild v Russell Williams (Textiles) Ltd, (T/A Washington DC)* [2000] UKHL 58, [2001] 1 All ER 700.

<sup>47</sup> Kevin Garnett et al (eds) *Copinger and Skone James on Copyright* (16th ed, Sweet & Maxwell, London, 2011), vol 1 at [7-17] (footnotes omitted).

<sup>48</sup> *Henkel KGaA v Holdfast New Zealand Ltd*, above n 32, at [43].

original creative design. Yet these are submissions Mr Elliott urges us to accept. The third person was the pattern maker who Mr Lloyd confirmed “lives and resides in Melbourne and is absolutely available”.<sup>49</sup> Mr Lloyd added that the pattern maker “plays an incredibly small part in all of this”.<sup>50</sup>

*Did the Dean Biker infringe G-Star’s copyright?*

[67] The second and closely associated question is whether the Judge erred in finding the Dean Biker jean infringed G-Star’s copyright in the drawings. The legal requirements and the correct approach on appeal are succinctly summarised by the Supreme Court in the following passage in *Henkel*:<sup>51</sup>

#### **Substantial part**

[44] It is not necessary for the plaintiff to show that the defendant copied the whole of the copyright work or that the copying was exact. It is enough if the plaintiff demonstrates that the defendant copied a substantial part of the copyright work. This can sometimes be a difficult matter of evaluation and is usually the most difficult question which arises in copyright cases. What amounts to a substantial part in an artistic work case depends more on qualitative visual impression rather than on quantitative analysis. As it has helpfully been put, what must have been copied is the essence of the copyright work. This is a subject upon which, in borderline cases, minds can reasonably differ, and it is appropriate for appellate [C]ourts to give to the trial Judge’s assessment the degree of latitude that conventionally applies to appellate review of a discretion.

[68] Heath J cited from that passage and also from this Court’s judgment in *Wham-O MFG Co v Lincoln Industries Ltd*, including:<sup>52</sup>

It is not necessary to show that the defendant has copied directly from the plaintiff’s work. It is sufficient for the plaintiff to establish some chain of causation linking the plaintiff’s copyright work with the defendant’s alleged infringing copy. The copying need not be direct copying. It may be indirect. What must be shown, however, is that either directly or indirectly the alleged defendant copier has in making his copies appropriated the labours of the plaintiff.

[69] We have upheld Heath J’s finding that Jeanswest copied four of the five main design features of G-Star’s Anniversary jean. It deliberately omitted the fifth. Those four features comprised a substantial part of the collocation of the five features. The essence of the design was copied.

[70] Although it is unnecessary to go further, the evidence at trial established copying at a much more detailed level. We have already dealt with the very similar measurements. The following instructions recorded in the sample order further demonstrate the detailed copying of the Anniversary jean which Jeanswest undertook:

- Pls apply the styling and construction details of the OS with the following amendments (which are then detailed).
- Pls duplicate the button fly of OS.
- Pls duplicate all styling details as per OS ... with amendments as requested ...
- Pls duplicate all panel shaping on OS except for the panel at back seat area between the back pkts.
- Pls duplicate all top stitching design and thrd cir combination as per OS ...

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49 NoE 324/5-6.

50 At 324/12-13.

51 *Henkel KGaA v Holdfast New Zealand Ltd*, above n 32 (footnotes omitted).

52 *Wham-O MFG Co v Lincoln Industries Ltd*, above n 15, at 668.

- Wash — Harley blues — pls duplicate wash exactly as per OS.

[71] To summarise, Mr Elliott’s arguments under this second issue leave us unpersuaded. We consider G-Star established overwhelmingly that Jeanswest copied its Anniversary jean — not just four of the five essential features but also many if not most of the details of the design. Accordingly we answer this issue: No, Heath J did not err in the way he went about assessing whether Jeanswest had copied the original work.

### **Issue 3: Primary infringement: in finding no primary infringement by Jeanswest NZ, did the Judge err?**

#### *What happened in the High Court*

[72] By application dated 29 July 2013 G-Star applied to join the two Jeanswest Australia companies. It annexed to its application a third amended statement of claim naming the two Jeanswest Australia companies as second and third defendants. That third amended statement of claim is dated 23 July 2013. In his submissions referred to in the next paragraph, Mr Elliott recorded that it was filed on 26 July 2013.

[73] The joinder application, which was opposed by Jeanswest NZ, was heard by Venning J on 26 August 2013. Mr Elliott submitted:

14. ... Firstly, that whatever spin the plaintiffs wish to put on it, until they filed an amended statement of claim on 26 July 2013 (the very last day on which they could do so without seeking leave) the sole relief sought was for *secondary* infringement against the defendant, for wrongly importing and dealing in the subject jeans.

15. Primary infringement has until very recently been off the table. ...

[74] Joinder was declined by Venning J in an oral judgment delivered at the end of the hearing on 26 August 2013.<sup>53</sup> Explaining his reasons in a further judgment the following day, 27 August 2013, Venning J said this:<sup>54</sup>

[4] On 8 November 2012, shortly after that pleading,<sup>55</sup> the proceeding was allocated a seven day fixture to commence on 23 September.

[5] At that stage the pleadings were focused on Jeanswest’s secondary infringement of the plaintiffs’ copyright, by importing, distributing and selling the infringement product.

...

[14] As the pleading stands in the second amended statement of claim the joinder of the proposed second and third defendants is not necessary to enable the Court to adjudicate on and settle the questions involved in that proceeding. ...

...

[17] The proposed third amended statement of claim would expand the existing causes of action to include not just secondary but primary infringement.

[75] In an oral judgment on 19 September 2013, Heath J dealt with a number of interlocutory issues requiring determination before the trial began.<sup>56</sup> One of those issues was the pleadings. Heath J directed:

#### **(c) Pleadings**

[29] The third point relates to the current state of the pleadings. The case will proceed based on the Second Amended Statement of Claim which G-Star does not propose to seek leave to amend. A Statement of Defence to that document has

53 *G-Star Raw C.V. v Jeanswest Corporation (New Zealand) Ltd* [2013] NZHC 2172.

54 *G-Star Raw C.V. v Jeanswest Corporation (New Zealand) Ltd*, above n 9.

55 Venning J was referring to the second amended statement of claim dated 6 September 2012 — the claim upon which this case went to trial, and therefore the one relevant to this appeal.

56 *G-Star Raw C.V. v Jeanswest Corporation (New Zealand) Ltd* [2013] NZHC 2461.

been filed. I direct the Registrar to remove from the Court file, and return to the solicitors for G-Star, the third Amended Statement of Claim on the Court file, for which leave to file was refused by Venning J.

[76] When the trial began on Tuesday 24 September 2013, Mr Marriott opened G-Star’s case on the basis both primary and secondary infringement of copyright were alleged. Paragraphs [21]-[40] of his opening submissions dealt with primary infringement, spelling out G-Star’s allegation that Jeanswest NZ had infringed its copyright by copying the Elwood design and issuing copies of the work to the New Zealand public, whether by sale or otherwise: s 16(1)(a) and (b) of the Act.

[77] Mr Marriott dealt with secondary infringement in [41]-[48] of his opening submissions, relying on ss 35 and 36 of the Act. He acknowledged that an essential element of the cause of action under both those sections was that Jeanswest NZ “knew or had reason to believe that the [Dean Biker] jeans were infringing copies”. He accepted G-Star bore the onus to prove knowledge.

[78] Mr Elliott accepts he did not object to Mr Marriott’s opening and did not ask Heath J to rule that Jeanswest NZ was not facing an allegation of primary infringement. So the trial proceeded for four days, including all of G-Star’s evidence, on the basis that both primary and secondary infringement were alleged.

[79] Only in his opening submissions for Jeanswest NZ on Monday 30 September (the fourth day of the eight day trial), did Mr Elliott dispute that Jeanswest NZ faced a claim of primary infringement. He submitted:

83. In paragraph 8.3 of the third amended statement of claim dated 23 July 2013 the plaintiffs specifically alleged that the first defendant had issued copies of the Copyright Works to members of the public. However, that statement of claim was expunged from the record. Paragraph 8.3 of the second amended statement of claim makes no such claim. It is a claim to importation and dealing in infringing copies with the requisite knowledge necessary to establish secondary infringement.<sup>57</sup>

Still there was no request by Mr Elliott that the Judge rule on whether Jeanswest NZ needed to deal with an allegation of primary infringement.

[80] Mr Marriott closed (on 4 October) on both primary and secondary infringement. Most of his submissions on secondary infringement dealt with knowledge, G-Star alleging that it arose in two ways:

- (a) Imputed knowledge arising from the way in which Jeanswest NZ and Jeanswest Australia were structured and operated; and
- (b) The operation of Jeanswest NZ “so as to turn a blind eye to any infringement”.

[81] In closing for Jeanswest NZ, Mr Elliott reiterated his submission that Jeanswest NZ was not facing a claim of primary infringement. He submitted particular 8.3 of the second amended statement of claim could only contain an allegation of secondary infringement. He accepted prayer for relief A sought a declaration that Jeanswest NZ had infringed G-Star’s copyright including “in breach of ss 29, 30 ... of the Copyright Act”. Those are two of the sections in the Act dealing with primary infringement of copyright. But Mr Elliott submitted that a prayer for relief could not transform an allegation of secondary infringement into one also of primary infringement. Alternatively, he submitted that a declaration of primary infringement could not be made on a claim only of secondary infringement. He referred in some detail to the High Court Rules, in particular r 5.27. Mr Elliott also put these arguments to us.

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<sup>57</sup> Paragraph 8.3 of the second amended statement of claim is set out in [83] below.

[82] This chronology demonstrates that primary infringement was not dealt with in the High Court in a satisfactory manner. If Mr Elliott considered Jeanswest NZ was not facing a claim of primary infringement he ought to have asked the Judge for a ruling to that effect. He should have done that, at the latest, following Mr Marriott opening on the basis G-Star was alleging both primary and secondary infringement.

*Was primary infringement pleaded and argued?*

[83] The critical allegation in the second amended statement of claim is:<sup>58</sup>

8. The Jeanswest Product infringes [G-Star's] copyright in the Copyright Works.  
Particulars

8.1 The Jeanswest Product is a copy, or a copy of a substantial part, of the Copyright Works ...

...

8.3 [Jeanswest NZ] directly or indirectly imported the Jeanswest Product into New Zealand for sale, possessing in the course of business, selling or offering and exposing for sale, or exhibiting in public, or distributing, the Jeanswest Product, in circumstances where the defendant knew or ought have reasonably known that the Jeanswest Product was an infringing copy of the Copyright Works or either of them.

[84] Particular 8.3 is a pleading both of primary and secondary infringement. Although the particular does not use the words “issue[s] copies of the work to the public” from s 16(1)(b), it is an allegation that Jeanswest NZ sold the infringing Dean Biker jeans to the New Zealand public, or offered to sell them or displayed them for sale. And that is the way Heath J understood G-Star was presenting its case, as is patent from [93] of his judgment which we have set out in [92] below. The two particulars also allege direct or indirect infringement of a substantial part of the copyright work, thus invoking s 29(2)(a) and (b) of the Act.

[85] That primary infringement was alleged is confirmed by the reference in prayer for relief A to ss 29 and 30 which deal with primary infringement, and only with primary infringement.

[86] We do not accept Mr Elliott’s submission that primary infringement was not pleaded.

[87] Based on the course of interlocutories and argument at trial in the High Court, chronicled in [72]-[81] above, we also reject Mr Elliott’s submission that primary infringement was not argued.

[88] In *Henkel* the Supreme Court observed:<sup>59</sup>

[32] Holdfast conducted its case in the High Court on the basis of Henkel’s pleadings and the way it had presented its case and was entitled to do so. It would be quite unfair to Holdfast to allow Henkel to present a materially different case on appeal. Henkel’s appeal to this Court must therefore be

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58 We are reluctant to refer to the third amended statement of claim as it was not the pleading at trial and Heath J had directed, before the trial began, that it be removed from the Court file and returned to G-Star’s solicitors (see [75] above). Notwithstanding that, Mr Elliott referred to it in his opening at trial. The point about that third statement of claim is that it separated the allegations of primary and secondary infringement that were contained in particular 8.3 of the second amended statement of claim, pleading each discretely under a separate heading. The allegation of primary infringement (in particular 8.3) was that Jeanswest NZ issued the copyright works to the New Zealand public, specifically by selling them. The allegation of secondary infringement (in particular 8.4) was that Jeanswest NZ imported, possessed in the course of business, distributed, offered and displayed (“exposed”) for sale and sold its infringing Dean Biker jeans. The declarations of infringement sought in prayer for relief A were expanded to include breach of ss 29, 31, 35 and 36 (s 31 was not relied on in the second amended statement of claim).

59 *Henkel KGaA v Holdfast New Zealand Ltd*, above n 32.



dismissed on the basis that its pleadings and the course of the trial in the High Court do not permit it now to rely on any copyright work associated with the SuperAttak packaging.

[89] Mr Elliott is seeking to achieve the reverse of that situation here — a decision from this Court that G-Star should not be entitled to the fruits of a case it pleaded and argued in the High Court. That, to use the Supreme Court’s words, “would be quite unfair” and we reject it. Had amendment of the pleading been required, we record we would have been prepared to permit it.

*Heath J’s reasons for not ruling on primary infringement*

[90] In the judgment under appeal, Heath J dealt both with primary and secondary infringement. He did that in a section of his judgment with the heading and opening paragraph:

**(f) Issue 5: Is Jeanswest NZ liable as a primary or secondary infringer?**

[85] In closing, Mr Marriott put G-Star’s case against Jeanswest NZ on the basis of both primary and secondary infringement.

[91] The Judge then explained primary infringement and secondary infringement. In relation to the latter, he dealt in some detail with the requirement that “the alleged secondary infringer must know, or have reason to believe, that the item with which it is dealing is an infringing copy of the work”.<sup>60</sup>

[92] But the heart of Heath J’s reasoning in this part of his judgment is in these six paragraphs:

[91] Proof of infringement depends on the application of agency law. In my view, the initial stance taken by Jeanswest NZ, and reflected in the brief of evidence of Ms Marston-Fergusson, was overly simplistic. Jeanswest NZ took the position that because it did not design the Dean Biker jeans, was not involved in the manufacture of the jeans and did not arrange for the supply of the jeans into New Zealand it could not be an infringer. On that approach, no overseas company treating its operations in New Zealand as if it were a branch office could be liable for copyright infringement, simply because its New Zealand based staff had no authority to deal with relevant issues. That, in my view, cannot be right.

[92] The case for primary infringement is not compelling. First, Jeanswest NZ, on any view, took no part in the design or manufacture of the Dean Biker jeans. As a distinct entity, its role was the importation of the jeans into New Zealand and their subsequent availability for sale. The decision to place the goods in New Zealand was made by senior management of Jeanswest Australia, but for legal purposes on behalf of Jeanswest NZ. That train of events is relevant to secondary infringement but has limited application when one considers whether Jeanswest NZ is a primary infringer.

[93] Mr Marriott submitted that by issuing the Dean Biker jeans to the public for sale in New Zealand, Jeanswest NZ became a primary infringer. That submission rests on the interpretation to be given to a combination of three sections within the Act. In logical sequence of application, ss 29, 16(1) and 9(1) of the Act [which the Judge then set out].

[94] By offering the Dean Biker jeans for sale in New Zealand, Jeanswest NZ was undertaking a restricted act. None of the exceptions to the phrase “issue of copies of a work to the public” apply. The decision to issue the Dean Biker jeans for sale was made by senior management of Jeanswest Australia, on behalf of Jeanswest NZ. Thus, the argument goes, Jeanswest NZ must be regarded as a primary infringer.

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60 High Court judgment, above n 2, at [88] (footnotes omitted).

[95] Mr Marriott accepted that if I were to find that Jeanswest NZ did not know that the Dean Biker jeans were infringing copies it might be able to claim the benefit of innocent infringement, thereby limiting the relief that G-Star might obtain to a declaration of infringement, an injunction and costs.

[96] Because I am satisfied that secondary infringement has been proved, it is unnecessary for me to consider the argument based on primary infringement. As Mr Marriott accepted, a finding of secondary liability was preferable from G-Star's perspective, as it gave it the right to seek damages in the event that innocent infringement were found to exist. Accordingly, I do not decide the point. I have set out the terms of the argument in case the question of liability were to be taken on appeal.

[93] Mr Elliott accepted Heath J's explanation for not ruling on primary infringement "is difficult to follow", but submitted "the real reason his Honour addressed the case on the basis of secondary infringement is because it had been pleaded and advanced by the plaintiffs at trial that way".

[94] The reasoning in the paragraphs in the judgment we have set out in [92] above is problematic and in some respects inaccurate. Mr Marriott was unable to explain to us why he accepted that a finding of secondary infringement was preferable from G-Star's perspective, if indeed he had done so. His thinking may have been along these lines:

- (a) Secondary infringement was a preferable finding for G-Star, because it required the Judge to find Jeanswest knew or had reason to believe it was dealing in infringing copies (ss 35 and 36).
- (b) Jeanswest would therefore not be able to invoke the s 121(1) defence of innocent infringement — that it did not know and had no reason to believe copyright existed in the Elwood design.<sup>61</sup>
- (c) Consequently G-Star would not be restricted to seeking an account of profits, but would be entitled to seek additional damages under s 121(2).
- (d) Thus there was no benefit to G-Star in a finding that there had also been primary infringement, once a finding of secondary infringement had been made.

[95] Although in [95] of his judgment Heath J was recording what Mr Marriott accepted, he was not correct to state that a finding of innocent infringement would limit G-Star to relief in the form of a declaration, an injunction and costs. An account of profits can also be sought from an innocent infringer. Further, in [96], Heath J recorded Mr Marriott accepting "a finding of secondary liability ... gave [G-Star] the right to seek damages in the event that innocent infringement were found to exist". This is incorrect because the purpose of the s 121(1) defence is to protect an innocent infringer from a claim for damages.

[96] Because primary infringement was pleaded and argued in the High Court, and because it is not clear to us why Heath J did not rule on it, we now do so.

#### *Prejudice to Jeanswest NZ?*

[97] In the course of argument we asked Mr Elliott how he might have presented the case differently had he understood primary infringement was being relied upon. His only response was to say that Jeanswest NZ might have called evidence as to

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<sup>61</sup> The reason is explained in *Copinger and Skone James on Copyright*, above n 47, in the quote set out in [118] below.

whether sales of the Dean Biker jeans occurred first in New Zealand rather than in Australia. But Mr Lloyd gave evidence that the Dean Biker jeans were launched simultaneously in Australia and New Zealand.<sup>62</sup>

### *The statutory provisions*

[98] The relevant provisions of the Act are these, and we deliberately set them out in this order:

#### **Infringement of copyright**

##### *Primary infringement of copyright*

#### **29. Infringement of copyright**

- (1) Copyright in a work is infringed by a person who, other than pursuant to a copyright licence, does any restricted act.
- (2) References in this Act to the doing of a restricted act are to the doing of that act—
  - (a) in relation to the work as a whole or any substantial part of it; and
  - (b) either directly or indirectly;—
 and it is immaterial whether any intervening acts themselves infringe copyright. ...

#### **Description, ownership, and duration of copyright**

##### *Description of copyright*

#### **16. Acts restricted by copyright**

- (1) The owner of the copyright in a work has the exclusive right to do, in accordance with sections 30 to 34 of this Act, the following acts in New Zealand:
  - (a) to copy the work:
  - (b) to issue copies of the work to the public, whether by sale or otherwise: ...

#### **9. Meaning of issue to the public**

- (1) References in this Act to the issue of copies of a work to the public mean the act of putting into circulation copies not previously put into circulation; and do not include the acts of [four are then set out, none applicable here]. ...

### *Our view*

[99] We are not in doubt that primary infringement by Jeanswest NZ was established. Although Jeanswest NZ denied the Dean Biker was a copy, or a copy of a substantial part, of the copyright works, it responded to particular 8.3 in the second amended statement of claim with this pleading:

15. It denies paragraph 8.3 and says while it imported into and distributed and sold the Jeans West Product in New Zealand it did so in good faith and neither knew nor had reasonable grounds to know that the JeansWest Product was an infringing copy, as alleged or at all.

[100] We have upheld Heath J's finding that Jeanswest copied G-Star's Anniversary jean. That finding, coupled with Jeanswest's admission in [15] that it sold the Dean Biker jeans in New Zealand, established primary infringement.

[101] As we explain in dealing with the next issue, secondary infringement, Jeanswest NZ's plea in [15] that it "neither knew nor had reasonable grounds to know" the Dean Biker was an infringing copy is a plea that it did not have the knowledge G-Star had to establish in order to hold Jeanswest NZ liable as a secondary infringer. Paragraph [15] pleads the relevant wording in ss 35 and 36 of the Act.

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62 Brief of Evidence of Adam Lloyd dated 30 September 2013 at [41]. Mr Lloyd deposed "the first sales of the ... Dean Biker ... jeans the subject of the dispute in both Australia and New Zealand occurred on same day 14 January 2010".

### *The s 121(1) defence*

[102] Jeanswest NZ did not plead the so-called “innocent infringement” defence afforded by s 121(1) of the Act:

#### **121. Provisions as to damages in infringement proceedings**

- (1) Where, in proceedings for infringement of copyright, it is proved or admitted that at the time of the infringement the defendant did not know, and had no reason to believe, that copyright existed in the work to which the proceedings relate, the plaintiff is not entitled to damages but, without prejudice to the award of any other remedy, is entitled to an account of profits.

[103] For the reasons we explain in [108]-[111] below when dealing with the knowledge which must be imputed to Jeanswest NZ, we are satisfied Jeanswest NZ could not have established the s 121(1) defence, even if it had pleaded it.

### *Conclusion*

[104] Jeanswest NZ simply had no defence to the claim of primary infringement it faced. Mr Elliott essentially confirmed that, as we point out in [97] above. That perhaps explains why Mr Elliott argued so strenuously that Jeanswest NZ had not faced a claim of primary infringement.

[105] Accordingly, we answer Issue 3: Yes, Heath J erred in not finding Jeanswest NZ liable for primary infringement.

### **Issue 4: Secondary infringement: conversely, did the Judge err in finding there was secondary infringement by Jeanswest NZ?**

#### *The statutory provisions*

[106] Five sections in the Act deal with secondary infringement of copyright. These are the pertinent parts of the two sections relevant to this appeal:

#### *Secondary infringement of copyright*

#### **35. Infringement by importation**

- (1) A person infringes copyright in a work if—
- (a) that person imports into New Zealand an object that is an infringing copy of the work and,—
  - ...
  - (ii) ... that person knows or has reason to believe that the object is an infringing copy; and
  - (b) the object was imported into New Zealand without a copyright licence; and
  - (c) the object was imported into New Zealand other than for that person’s private and domestic use. ...

#### **36. Possessing or dealing with infringing copy**

Copyright in a work is infringed by a person who, in New Zealand, other than pursuant to a copyright licence,—

- (a) possesses in the course of a business; or
- (b) in the course of a business or otherwise, sells or lets for hire; or
- (c) in the course of a business, offers or exposes for sale or hire; or
- (d) in the course of a business, exhibits in public or distributes; or
- (e) distributes otherwise than in the course of a business to such an extent as to affect prejudicially the copyright owner—

an object that is, and that the person knows or has reason to believe is, an infringing copy of the work.

#### *The knowledge requirement*

[107] Both these sections have the knowledge requirement we referred to in [91] above. In s 35 it is the requirement that the relevant person “knows or has reason to

believe that the object is an infringing copy”.<sup>63</sup> In s 36 it is the requirement that what is dealt with is “an object that is, and that the person knows or has reason to believe is, an infringing copy of the work”.

*Heath J’s reasoning and conclusion*

[108] Heath J explained his reasons for holding Jeanswest NZ liable as a secondary infringer in these paragraphs:<sup>64</sup>

- [97] On secondary infringement, it is plain that Jeanswest NZ imported the products into New Zealand. It did so at the behest of representatives of Jeanswest Australia who had authority to do so. The jeans were then placed on the New Zealand market for sale, with authority from the same people. In that situation, assuming that form of agency is available to found a claim for infringement, the elements of ss 12, 35(1)(a)(ii) and 36(a), (b) and (c) have been made out.
- [98] On the agency point, Mr Johnson, for Jeanswest NZ, referred me to *Hickman v Turn and Wave Ltd*.<sup>65</sup> It is uncontroversial to say that knowledge acquired by an agent, while acting for a principal, is imputed to the principal. The rationale for that approach is, primarily, the protection of third parties dealing with an agent.
- [99] Knowledge acquired other than during the scope of the agency is not generally imputed to the principal unless the agent is an “agent to know”. In *Jessett Properties Ltd v UDC Finance Ltd* the Court of Appeal said:<sup>66</sup>

The general principle that notice given to or knowledge acquired by an agent is imputed to his principal only if the agent was at the time employed on the principal’s behalf is recognised in the texts and the cases: see for example *Bowstead on Agency* 15 ed 412-416, *Fridman’s Law of Agency* 6 ed 319, *The Société and Générale de Paris v The Tramways Union Co Ltd* (1884) 14 QBD 424 and *Taylor v Yorkshire Insurance Co Ltd* [1913] 2 IR 1. This accords with good sense and justice.

...

Whichever be the true basis, it is apparent that knowledge acquired before the agency began or probably even during its currency but outside the scope of the engagement, should not in general be imputed to the principal.

In the *Taylor case*, Palles CB noted two exceptions: one where the principal “purchases the previously obtained knowledge of the agent” in relation to the particular subject matter; the other where the agent is “an agent to know”. The latter expression comes from the judgment of Lord Halsbury LC in *Blackburn, Low & Co v Vigors* (1887) 12 AC 531, 537-538 where his Lordship pointed out that the somewhat vague use of the word “agent” leads to confusion and added:

Some agents so far represent the principal that in all respects their acts and intentions and their knowledge may truly be said to be acts, intentions and knowledge of the principal. Other agents may have so limited and narrow an authority both in fact and in the common understanding of their form of employment that it would be quite inaccurate to say that such an agent’s knowledge or intentions are the knowledge or intentions of his principal; and

63 Copyright Act, s 35(1)(a)(ii).

64 High Court judgment, above n 2 (emphasis added).

65 *Hickman v Turn and Wave Ltd* [2011] NZCA 100, [2011] 3 NZLR 318 at [192]-[197].

66 *Jessett Properties Ltd v UDC Finance Ltd* [1992] 1 NZLR 138 (CA) at 143.

whether his acts are the acts of his principal depends upon the specific authority he has received.

All turns on the nature of the agent's engagement.

[100] On the evidence, I am satisfied that those people who made the decision to send the Dean Biker jeans to New Zealand were responsible for ensuring that there was no breach of copyright. When Mr Marriott put that specific question to Ms Marston-Fergusson,<sup>67</sup> she answered that Jeanswest Australia would make decisions about the legality of what was being ordered on behalf of Jeanswest NZ on the latter's behalf. Mr Lloyd's evidence was to the same effect. *Those persons who made the decisions in Australia had authority to act on behalf of Jeanswest NZ and knowledge, or at the very least reason to believe, that the Dean Biker jeans were an infringing copy of G-Star's copyright works.* That knowledge must be imputed to their principal (for importing and sale purposes in New Zealand), Jeanswest NZ. From an agency law perspective, the Australian actors' roles come within the principle that "in all respects their acts and intentions and their knowledge may truly be said to be acts, intentions and knowledge of the principal".

[101] For those reasons, I hold that Jeanswest NZ is liable as a secondary infringer.

#### *Our view*

[109] We agree with the Judge's reasoning in those paragraphs, although we consider it needs to be spelt out in more detail.

[110] The word "knows" in s 35(1)(a)(ii) and in s 36 connotes actual knowledge, as Smellie J — in our view correctly — held in *Husqvarna Forest & Garden Ltd v Bridon New Zealand Ltd*.<sup>68</sup> On the other hand, the words "has reason to believe" in those two provisions involve constructive knowledge. Constructive knowledge is appropriately imputed if a party wilfully closes its eyes to the obvious or wilfully fails to make those inquiries an honest and reasonable person in the circumstances will make.<sup>69</sup>

[111] These, in our view, are the steps which result in the conclusion that Jeanswest NZ is liable for secondary infringement:

- (a) First, Jeanswest Australia, and thus by imputation Jeanswest NZ, knew the Dean Biker was a copy of G-Star's Elwood design. It had copied it.
- (b) Secondly, the Dean Biker was imported into New Zealand and sold to the public here. As Heath J explained in [100] of his judgment (set out in [108] above), the decisions to import the Dean Biker jeans into New Zealand and sell them here were made by Jeanswest Australia on behalf of Jeanswest NZ, which must accept the legal consequences of those decisions.
- (c) As Heath J also found in [100] of his judgment, decisions about the legality of importation into and sale in New Zealand of the Dean Biker jeans were also made by Jeanswest Australia on behalf of Jeanswest NZ. For the reasons he explained in [112]-[115] of his judgment (set out in [112] below), the Judge inferred Jeanswest Australia had assumed New Zealand copyright law was the same as Australian law. It did not

67 Ms Marston-Fergusson is the Country Manager for Jeanswest NZ.

68 *Husqvarna Forest & Garden Ltd v Bridon New Zealand Ltd* [1997] 3 NZLR 215 (HC) at 226. This is also the view expressed in Garnett, Davies and Harbottle, above n 47, vol 1 at [8-08]-[8-09].

69 *Husqvarna*, above n 68, at 226; *Inverness Medical Innovations Inc v MDS Diagnostics Ltd* (2010) 93 IPR 14 (HC) at [265] citing Kevin Garnett et al (eds) *Copinger and Skone James on Copyright* (15th ed, Sweet & Maxwell, London, 2005), vol 1 at [8-10].

obtain the advice or make the inquiries necessary to inform itself as to the different copyright position in New Zealand.

- (d) As a substantial New Zealand retailer, Jeanswest NZ ought reasonably, in the circumstances, to have informed itself about the copyright position in New Zealand before importing the Dean Biker jeans into New Zealand and selling them here.
- (e) Because it did not do so, Jeanswest NZ was not able to make out its plea that it “neither knew nor had reasonable ground to know that the Jeanswest product was an infringing copy”.<sup>70</sup>
- (f) Jeanswest NZ is thus liable for secondary infringement.

### *Ignorance of the law no excuse*

[112] Later in his judgment, when dealing with G-Star’s claim for additional damages under s 121(2) of the Act, Heath J said this:

[112] ... For much of the hearing, I could not understand why Jeanswest Australia would take the risk of infringement proceedings being issued by an enterprise that was well known for protecting its intellectual property rights, when such a small run had been ordered. The sinister theory I had put to Mr Lloyd was adequately dispelled by his answer about the need to avoid allocating goods to stores where it was likely that the copyright owner would find them.

[113] It was only when I was told, during final submissions, that copying of this type would not infringe Australian copyright laws that I formed a view about how this had happened. The problem, in my view, has stemmed from Jeanswest Australia’s treatment of Jeanswest NZ as no more than a branch office.

[114] I infer that when Jeanswest Australia’s legal advisor talks to staff in Melbourne about infringement issues, he focuses on Australian law. That being so, the attention of those in the design and production team responsible for ensuring no breach of copyright occurs will not have been drawn to the different legal position in New Zealand. That is the most favourable inference that can be drawn in favour of those who are responsible for directing Jeanswest NZ’s business in this country. It is a conclusion which I find to be consistent with Mr Lloyd’s view about the business ethics and culture of Jeanswest Australia generally.

[115] Mr Marriott urged me to conclude, even if I were to take that view, that infringement occurred by virtue of Jeanswest Australia shutting its eyes deliberately to the consequences of behaviour of this type under New Zealand law. In my view, such a conclusion would be purely speculative. There being two inferences available, I draw the one most favourable to Jeanswest NZ, namely that the infringement occurred through ignorance of New Zealand law — though that is no excuse.

[113] In the last sentence of [115] Heath J really puts his finger on Jeanswest NZ’s defence to the allegation of secondary infringement: it was ignorant of New Zealand copyright law, wrongly assuming it was the same as Australian law. But, as Heath J correctly held, ignorance of the law is no excuse.

[114] *James & Wells Intellectual Property Law in New Zealand* states the position baldly, but we consider accurately:<sup>71</sup>

#### **Ignorance of law no excuse**

A lack of knowledge on the part of the defendant based on an error of law may still amount to infringement.

<sup>70</sup> This is the plea in [15] of its statement of defence. It is set out in [99] above.

<sup>71</sup> Ian Finch (ed) *James & Wells Intellectual Property Law in New Zealand* (2nd ed, Thomson Reuters, Wellington, 2012) at 301. Mr Finch was junior counsel for the respondent.

[115] *Copinger* has this to say about a defendant who mistakes the legal position:<sup>72</sup>

The reasonable man will be taken to be a reasonable man in the position of the defendant and with his knowledge and experience.<sup>73</sup> If a defendant has knowledge of relevant facts giving grounds for belief that is all that is necessary; it is no defence that the defendant did not in fact believe the copies to be infringing<sup>74</sup> or for a defendant to say that although he knew the facts he nevertheless believed that as a matter of law no infringement would be committed, even if this was on the basis of legal advice.<sup>75</sup>

[116] The New Zealand authorities are to similar effect. In *Husqvarna, Smellie J* emphasised the appropriate inquiry is whether the defendant knew the relevant facts to determine whether a work was copyright, not whether it was legally mistaken as to whether in fact the work infringed copyright. The Judge stated:<sup>76</sup>

On the other hand, it is beyond argument that lack of knowledge based on an error of law is no excuse (see *International Business Machines Corporation v Computer Imports Ltd* [1989] 2 NZLR 395, (1989) 3 TCLR 163 (HC) at 407, 418).

[117] In *Brintons v Feltex Furnishings of New Zealand (No 2)*, one of the cases summarised in the appendix to this judgment, Hillyer J dealt with a situation almost identical to that here, though the geographical converse. In the course of rejecting Feltex's defence, Hillyer J stated:<sup>77</sup>

The law that was required to be known however, was the law in this country, in which the defendant is based, in which the carpet was to be manufactured, and in which presumably a company the size of the defendant would have access to the best advice and should be familiar with questions of copyright and the products of a company such as the plaintiff.

### *The s 121(1) defence*

[118] In [102] above we noted Jeanswest NZ had not invoked the s 121(1) defence. We agree with the following comment in *Copinger* as to the inapplicability of that defence to a secondary infringer:<sup>78</sup>

It is difficult to see how this defence could apply to a secondary infringer. Anyone who knows or has reason to believe that he is dealing in infringing copies must know or have reason to believe that copyright subsists because that is an essential part of the meaning of "infringing copies". He cannot, therefore, be said to have no reason to believe that copyright subsists in the work.

### *Conclusion*

[119] It follows that we agree with the Judge that Jeanswest NZ is liable for secondary infringement of copyright.

<sup>72</sup> *Copinger and Skone James on Copyright*, above n 47, at vol 1 [8-10].

<sup>73</sup> *ZYX Music GmbH v King* [1995] 3 All ER, [1995] FSR 566 (Ch) at 578 (knowledge of reasonable record distributor in defendant's position); *Raben Footwear Pty Ltd v Polygram Records Inc* (1997) 75 FCR 88 (FCAFC) (regard to be had to "the knowledge, capacity and circumstances of the particular defendant").

<sup>74</sup> *Nouveau Fabrics Ltd v Voyage Decoration Ltd* [2004] EWHC 895 (Ch).

<sup>75</sup> *ZYX Music GmbH v King* [1997] 2 All ER 129 (CA), applying *Sillitoe v McGraw-Hill Book Co (UK) Ltd* [1983] FSR 545 (Ch) (decided under the 1956 Act). See also *International Business Machines Corporation v Computer Imports Ltd* [1989] 2 NZLR 395, (1989) 3 TCLR 163 (HC) at 418.

<sup>76</sup> *Husqvarna*, above n 68, at 226. *International Business Machines Corporation v Computer Imports Ltd* was also a judgment of Smellie J.

<sup>77</sup> *Brintons Ltd v Feltex Furnishings of New Zealand (No 2)* [1991] 2 NZLR 683 (HC) at 688.

<sup>78</sup> Garnett et al, above n 47, at vol 1 [21-76].



### Issue 5: Additional damages: was Heath J wrong not to award G-Star additional damages?

[120] Two considerations persuaded Heath J not to award G-Star additional damages under s 121(2) — additional that is to the \$325 he allowed equating to the profit Jeanswest NZ had made on selling the copied jeans.

[121] The first consideration was the motive of Jeanswest NZ. The Judge reiterated he was satisfied “the sinister theory” he had put to Mr Lloyd was not the position. That is the phrase the Judge used in [112] of his judgment, which we have set out in [112] above.

[122] The second consideration was his view that the infringement occurred through ignorance of New Zealand’s different copyright law. He expressed that view in his [113]-[115], also set out in [112] above.

[123] Section 121(2) of the Act provides:

#### 121. Provisions as to damages in infringement proceedings

...

- (2) In proceedings for infringement of copyright, the court may, having regard to all the circumstances and in particular to—
- (a) the flagrancy of the infringement; and
  - (b) any benefit accruing to the defendant by reason of the infringement,—
- award such additional damages as the justice of the case may require. ...

[124] Under s 121(2) the Court has discretion to award such additional damages as it considers the justice of the case requires, having regard to all the circumstances. In *Skids Programme Managements Ltd v McNeill* this Court said of that discretion.<sup>79</sup>

[Section] 121(2) gives the Court the power to award damages that are not linked to a compensation award, and which is to be exercised applying principles that correspond to those which govern awards of exemplary damages at common law.

Therefore damages can include an element of punishment.

[125] We deal first with the two particular factors set out in s 121(2). We consider this was a flagrant infringement in that this was blatant copying by Jeanswest. No other assessment is open on the evidence of the copying process for the Dean Biker jeans documented in the sample order, coupled with Mrs Garfield’s explanation as to how she went about the process of designing jeans: by copying the features of garments designed by others and collected by Jeanswest personnel on trips around the fashion world.

[126] There was no direct evidence about the benefit accruing to Jeanswest from the copying. But these three points emerge from evidence given by Mr Piet Poelmann, the Country Manager of G-Star for Australia and New Zealand:

- (a) A fashion business which simply copies the designs of other labels does not incur the significant design costs incurred by a business like G-Star, which spends significant amounts designing its original and new garments.
- (b) A business which copies can also quite easily find out which designs have sold well, and copy those.
- (c) When G-Star’s original designs are copied “the kudos of owning an original G-Star design is lost”.<sup>80</sup> The damage is exacerbated because the copies tend to be produced and distributed in large volumes, diminishing the uniqueness of the G-Star brand. The copies are also sold (as in this case) at cheaper prices.

<sup>79</sup> *Skids Programme Managements Ltd v McNeill* [2012] NZCA 314, [2012] 1 NZLR 1 at [106].

<sup>80</sup> Brief of Evidence of Piet Poelmann dated 11 September 2013 at [23].

[127] Mr Poelmann deposed: “I believe that the actions of [Jeanswest NZ] are very damaging to the business of [G-Star] and [G-Star’s] reputation in New Zealand and around the world”.<sup>81</sup>

[128] In the course of Mr Elliott’s fairly lengthy cross-examination of Mr Poelmann there was this exchange:<sup>82</sup>

Q So you’re saying that if a jean had those five features, people would assume it must be a G-Star jean, is that what you’re saying?

A No, that’s not what I’m saying. What I’m saying is this, G-Star is renown[ed] once again for innovation, uniqueness and all of the characters we talked about before. If consumers find a similar product, a very similar product for half the price or sometimes even a third of the price in another outlet, in this case for instance Jeanswest, obviously that will damage the image of G-Star in that respect. That’s what I mean.

Benefit to Jeanswest NZ and damage to G-Star are the two sides of the same infringement coin. Nevertheless, there was no evidence of actual or tangible damage to G-Star. Thus, the corresponding benefit to Jeanswest is incalculable.

[129] We consider the following further circumstances were relevant when assessing whether an award of additional damages should be made:

- (a) The importation was very small — just 63 pairs of jeans. But it was a “talker”, in other words intended to test the market with a view to further importations if the jeans sold well.
- (b) Jeanswest NZ immediately desisted selling the Dean Biker when it received a letter from G-Star’s solicitors, although by that time all the jeans had been sold.
- (c) Aspects of the way Jeanswest NZ defended the claim reflect badly on it. First, there was the very late — and then almost incidental — disclosure of the sample order which became at trial perhaps the most critical document. Secondly, after this late disclosure, Jeanswest NZ successfully opposed G-Star’s application to join the two Jeanswest Australia entities as parties, giving as one of its grounds of opposition that the joinder would have required the scheduled fixture to be vacated, and Jeanswest NZ’s witness Ms Laidlaw was pregnant and likely to be unavailable as a witness at a later trial.<sup>83</sup> However, Jeanswest NZ then decided not to call her and it transpired she had not even been working for Jeanswest at the relevant time. Thirdly, there was the glaring inconsistency between Jeanswest NZ’s persistent denial of copying on the one hand, but on the other hand its decision not to call either of the witnesses who could have substantiated that denial.
- (d) Heath J accepted the importation was explained by ignorance of New Zealand’s copyright law, dispelling his suspicion that the importation was a “sinister” attempt by Jeanswest NZ to see whether it could sell the Dean Biker jeans in New Zealand undetected. But the corollary is that Jeanswest lacked an effective system for establishing whether this importation breached New Zealand copyright law. It should have been a simple matter to obtain the required legal advice. And Jeanswest was a substantial business.

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<sup>81</sup> At [28].

<sup>82</sup> NoE at 87/11-18.

<sup>83</sup> This is the joinder application referred to in [25]-[26] and [73]-[74] above.

[130] Heath J did not factor in these considerations when deciding not to award additional damages. But the pre-trial conduct of Jeanswest NZ — part of our factor (c) — was the reason Heath J uplifted costs by 25 per cent. Any double impost in that respect must be avoided.

[131] Appended to this judgment is a table containing a representative sample of awards of additional damages in comparable copyright infringement cases in New Zealand and Australia. Balancing all the relevant factors, and taking the level of the awards in those cases into account, we consider an award of \$50,000 additional damages ought to have been made. We make these comments about some of the cases in the appendix:

- (a) *Skids Programme Management Ltd v McNeill*, where this Court awarded \$20,000 additional damages, is a less serious case.<sup>84</sup>
- (b) *Venus Adult Shops Pty Ltd v Fraserside Holdings Ltd* (AUD85,000), *Aristocrat Technologies Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* (AUD200,000), *Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd* (AUD150,000) and *Seafolly Pty Ltd v Fewstone Pty Ltd* (AUD150,000) involve considerably more serious cases of infringement.<sup>85</sup> Noteworthy is the need the Court saw in *Elwood* to deter the respondent’s design method of sending “shoppers” around the world to identify “winners” and then copy them — substantially the method Jeanswest adopted here.<sup>86</sup> Similarly, in *Seafolly* the defendant’s action of sending one of the applicant’s garments to its Chinese manufacturer to copy has similarities to Jeanswest’s design/manufacture process here.
- (c) We place the present case in roughly the same bracket of severity as *Norm Engineering Pty Ltd v Digga Australia Pty Ltd* (AUD19,450) and *Review Australia Pty Ltd v New Cover Group Pty Ltd* (AUD50,000).<sup>87</sup> In the latter case a factor in the additional damages award was the defendant’s uncooperative approach in relation to the infringement proceeding.

[132] Accordingly, we answer Issue 5: Yes, Heath J was wrong not to award G-Star additional damages. We make an award of \$50,000.

### **Issue 6: Permanent injunction: was Heath J wrong to grant G-Star a permanent injunction?**

[133] Heath J made an order restraining Jeanswest NZ from copying the copyright works and from selling, manufacturing, importing or otherwise disposing or dealing with the infringing Dean Biker jeans. In making that order the Judge commented: “The injunctive relief is appropriate and goes beyond undertakings that were previously offered”.<sup>88</sup>

[134] The position outlined in [3] above is common ground: the Elwood design was launched at a clothes fair in Germany in March 1996 and has been on sale in retail outlets around the world since then.

84 *Skids Programme Management Ltd v McNeill* [2012] NZCA 314, [2013] 1 NZLR 1.

85 *Venus Adult Shops Pty Ltd v Fraserside Holdings Ltd* [2006] FCAFC 188, (2006) 157 FCR 442; *Aristocrat Technologies Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)* [2007] FCAFC 40, (2007) 157 FCR 564; *Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd* [2009] FCA 633, (2009) 81 IPR 378; and *Seafolly Pty Ltd v Fewstone Pty Ltd* [2014] FCA 321, (2014) 313 ALR 41.

86 Unlike s 121(2), s 115(4) of the Copyright Act 1968 (Cth) identifies as a relevant factor: “(ia) the need to deter similar infringements of copyright; ...”.

87 *Norm Engineering Pty Ltd v Digga Australia Pty Ltd* [2007] FCA 761, (2007) 162 FCR 1; and *Review Australia Pty Ltd v New Cover Group Pty Ltd* [2008] FCA 1589, (2008) 79 IPR 236.

88 High Court judgment, above n 2, at [108].

[135] That means it was “applied industrially” in terms of s 75(4) of the Act, with the consequence that copyright protection for G-Star in the Elwood design ended 16 years later, in approximately March 2012: s 75(1)(e). There consensus between the parties ended.

[136] For Jeanswest NZ, Mr Elliott took the position that Heath J had been wrong to grant injunctive relief from October 2013 because G-Star was not entitled to protection beyond March 2012.

[137] For G-Star Mr Marriott pointed out that G-Star’s copyright in the copyright works had not “expired” in March 2012. Rather, s 75 created a defence to any subsequent infringing conduct. He argued that there might be thousands more pairs of Dean Biker jeans made before March 2012, stored in a factory somewhere in China. He suggested the wording of the order made by Heath J could be amended to restrain reproduction in breach of the Act only.

[138] We are not attracted to Mr Marriott’s suggested course, which he ultimately conceded was problematic. That is particularly so because Heath J declined to make the order sought by G-Star that Jeanswest NZ deliver up all remaining pairs of its Dean Biker jeans held in New Zealand. The Judge was satisfied there was none, nor was there any promotional material.<sup>89</sup>

[139] Accordingly, we answer Issue 6: Yes, Heath J was wrong to grant G-Star a permanent injunction. We set that injunction aside.

### **Issue 7: Costs in the High Court: did Heath J err in awarding increased costs to G-Star?**

[140] Heath J considered an uplift of 25 per cent on the 2B costs that would otherwise be ordered was justified for two reasons:

- (a) Jeanswest NZ’s decision not to call Ms Laidlaw, when it had told the Court six weeks before the trial that she would be a “key” witness. The Judge considered that “must have contributed to additional cost on the part of G-Star, in preparing for trial”;<sup>90</sup> and
- (b) late disclosure of the sample order. We have already mentioned that it was the critical document at trial. Indeed, Heath J noted Mr Elliott’s invitation that he not put weight on the fact that Jeanswest NZ had not called any of the witnesses who could describe the process of designing the Dean Biker jeans “because the sample order spoke for itself”. Again, the Judge anticipated that “some significant additional cost was incurred by G-Star in having to address such a critical document at a late stage of its preparation”.<sup>91</sup>

[141] As this Court has said many times, and as the Supreme Court confirmed in *Shirley v Wairarapa District Health Board*, an appellate court should not interfere with a costs decision unless satisfied there is error of principle, exclusion of relevant matters or inclusion of irrelevant ones, or the decision is plainly wrong — that is, is a decision outside the available ambit of the Judge’s broad discretion.<sup>92</sup>

[142] We can see no basis for interfering with Heath J’s costs order; indeed we think it was entirely appropriate. We have, of course, indicated that we are making

<sup>89</sup> At [108].

<sup>90</sup> At [122(a)].

<sup>91</sup> At [122(b)].

<sup>92</sup> *Shirley v Wairarapa District Health Board* [2006] NZSC 63, [2006] 3 NZLR 523 at [15]. This applies the long established formula, formulated in *May v May* [1982] 1 NZFLR 165 (CA) at 170.

an award of additional damages. But in doing that, and in arriving at the appropriate figure, we have been mindful that Jeanswest NZ's unreasonable pre-trial conduct of the case sounded in the uplifted costs we are upholding.

[143] For those reasons we answer Issue 7: No, there was no error in Heath J's award of increased costs to G-Star.

### **Result**

[144] Jeanswest NZ's appeal is allowed to the extent that we set aside the permanent injunction made by Heath J. The appeal is otherwise dismissed.

[145] G-Star's cross-appeal is allowed:

- (a) We find Jeanswest liable for primary infringement of the copyright works. The Judge made no finding on this.
- (b) Pursuant to s 121(2) of the Copyright Act 1994, we award \$50,000 additional damages to G-Star, together with interest at the rate prescribed in s 87 of the Judicature Act 1908 from 2 July 2010<sup>93</sup> to the date of this judgment.

[146] The net result is substantial success for G-Star. In addition to retaining the finding of secondary infringement, G-Star has a finding of primary infringement. It also has an award of additional damages. The setting aside of the permanent injunction is a comparatively minor success for Jeanswest NZ, in that it has no practical ramifications. Given that outcome, we order that Jeanswest is to pay G-Star costs as for a single standard appeal but on a band B basis with usual disbursements. In terms of filing fees, those disbursements are limited to the cross-appeal. We certify for second counsel.

*Appeal allowed in part; cross-appeal allowed*

Reported by Kara Hudson

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93 That is the date on which a representative of G-Star purchased a pair of infringing Dean Biker jeans from the Jeanswest retail store in the Riccarton Mall shopping centre in Christchurch.

### Appendix

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |  |              |
|--|--|--------------|
| <b>Case reference</b>  | <b>Brief description</b>   | <b>Award</b> |
| <b>New Zealand cases</b>   |  |              |
| <i>Wellington Newspapers Ltd v Dealers Guide Ltd</i> [1984] 2 NZLR 66 (CA)   | The <i>Dealers Guide</i> published lists of the current trade prices for various makes of second hand motor vehicles. It copied those lists from the <i>Truth</i> weekly newspapers. It did this in two issues before an injunction was issued. Two members of the Court described the award as “high” and the third as “a large amount” considering there were only two infringing publications. But the Court was unanimous that the award was not unreasonable.   | \$7,500      |
| <i>Feltex Furnishings of NZ Ltd v Brintons Ltd</i> (1992) 4 NZBLC 102,913 (CA)   | A Sydney hotel sought tenders for replacement of its carpet. Feltex and Brintons submitted tenders. Feltex submitted a lower price but the hotel preferred Brintons’ design. Feltex offered to produce Brintons’ design at a lower price, and the hotel accepted. Feltex admitted breach of copyright at trial. Hillyer J found the breach was flagrant but awarded only compensatory damages, and no additional damages (but took flagrancy into account). On appeal, the Court of Appeal found it would have been desirable for Hillyer J to have fixed compensatory damages and then specified what he was awarding as additional damages. That he took a global approach did not invalidate the award however. | Unclear      |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |   |   |
|--|---|---|
| <b>Case reference</b>  | <b>Brief description</b>  | <b>Award</b>  |
| <b>New Zealand cases</b>   |   |   |
| <i>Callista Group Ltd v Zhang</i><br>HC Auckland CIV-2003-404-5127, 11 July 2005.  | Callista developed and sold computer software products. The defendant had worked for Callista before being dismissed. He was found to have breached Callista's copyright by developing programmes which were substantial copies of Callista's programmes. The Judge found the infringement was flagrant: Mr Zhang knowingly substantially copied his employer's software to enable him to create programmes for others; he derived benefit from doing so; he incorporated his employer's security programmes into his own; he knew the significance of those programmes; and was at least grossly careless in allowing them to be embedded in his own programmes. In awarding additional damages, the Court noted it was clear Mr Zhang would not be able to pay much. \$150,000 was awarded against Mr Zhang, but the Judge did not specify what part of these damages were additional damages (saying they could be regarded as general, or additional, damages). | \$150,000, (a sum including both general and additional damages). |
| <i>World TV Ltd v Best TV Ltd</i><br>HC Auckland CIV-2005-404-1239, 6 September 2006   | The defendants broadcast programmes which the plaintiffs had exclusive rights to broadcast in New Zealand. Williams J held that though the defendants must have known full well they had no justification for broadcasting the programmes, the compensatory damages already awarded "must be weighed before the flagrancy of the defendant's actions could be met by an award of additional damages to punish the defendants for their actions". Large compensatory damages had been awarded. Only an injunction stopped the infringement. \$15,000 was awarded.  | \$15,000 (jointly and severally against two defendants)           |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |   |              |
|--|---|--------------|
| <b>Case reference</b>  | <b>Brief description</b>  | <b>Award</b> |
| <b>New Zealand cases</b>   |   |              |
| <i>Electroquip Ltd v Craigco Ltd (No 2)</i> HC Auckland CIV-2006-404-6719, 3 September 2008  | The defendants infringed the plaintiff's copyright in an automatic sheep jetter. The Judge found there was nothing to suggest the defendants knew Electroquip had copyright and deliberately infringed their copyright when developing and initially producing the sensor jet at issue. When allegations of breach of copyright were made the defendants immediately sought advice from patent attorneys. Although the defendants continued to manufacture their jet, they only did so until the information on which the plaintiffs relied was disclosed. No additional damages were awarded.  | None         |
| <i>Sunlec International Pty Ltd v Electropar Ltd</i> HC Auckland CIV-2007-404-5044   | Sunlec imported and distributed wire marking products, which provided a simple method of labelling electrical wires. Electropar was a trade competitor of Sunlec's, having earlier distributed the product in NZ on behalf of Sunlec. Electropar was found to have breached Sunlec's copyright in two literary works and one photographic works: "How it works — Four easy steps"; a photograph of an item; and a caption for a particular case. Additional damages were claimed, but none were awarded: Wylie J found none of the infringements was flagrant, nor was there any evidence that any benefit of any significance had accrued to Electropar. | □□□□□        |



| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |  |              |
|--|--|--------------|
| <b>Case reference</b>  | <b>Brief description</b>   | <b>Award</b> |
| <b>New Zealand cases</b>   |  |              |
| <i>Skids Programme Management Ltd v McNeill</i> [2012] NZCA 314, [2012] 1 NZLR 1   | Skids operated a franchise whereby franchisees carried on the business of caring for children before and after school. Franchisees operated on the basis of a code of conduct and a policy and procedures manual: significant documents setting out various aspects of the operation of the franchise in detail. The respondents had been associated with Skids but upon termination of their franchise agreements with Skids were involved in setting up a new business (Kidschoice Ltd) which operated in competition with Skids. The respondents were found to have breached Skids' copyright by copying Skids' policies and procedural manual and other documents. The High Court awarded \$1,000 additional damages. On appeal that award was increased to \$20,000. The Court of Appeal took into account that the copying was deliberate and extensive (approx 50 pages of material); that the first respondent was well aware of the fact that she was breaching her obligations; that she repeatedly denied copying the material; that the enterprise of Kidschoice Ltd was modest; that the only penalty for the flagrant copying would be the award of additional damages; and the amount of the awards in other cases. The award was described as "a moderate but distinct award which marks out what we consider to be outrageous behaviour". | \$20,000     |
| <b>Australian cases — Copyright Act 1968 (Cth), s 115(4)</b>   |  |              |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |  |              |
|--|--|--------------|
| <b>Case reference</b>  | <b>Brief description</b>   | <b>Award</b> |
| <b>New Zealand cases</b>   |  |              |
| <i>Venus Adult Shops Pty Ltd v Fraserside Holdings Ltd</i> [2006] FCAFC 188, (2006) 157 FCR 442  | Venus ran eight retail adult shops in Australia, and infringed Fraserside's copyright in pornographic films. The first instance Judge found the respondents knew the copying was illegal, and so Venus' conduct was flagrant. In awarding \$85,000 additional damages, the Judge also took account of the fact that Venus failed on a number of occasions to comply with court orders, and seldom met deadlines. It benefited from selling the copyright material without paying for it. It completely failed to provide financial data that would have assisted the Court in understanding the severity of its actions. On the other hand, Fraserside gave no warning that they proposed to bring an action, and another respondent acquiesced in the sale of some films. On appeal, the full Court upheld the damages awarded. | \$85,000     |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |   |              |
|--|---|--------------|
| <b>Case reference</b>  | <b>Brief description</b>  | <b>Award</b> |
| <b>New Zealand cases</b>   |   |              |
| <i>Aristocrat Technologies Pty Ltd v DAP Services (Kempsey) Pty Ltd (in liq)</i> [2007] FCAFC 40, (2007) 157 FCR 564                       | The respondents reconditioned used electronic gaming machines and resold them. They infringed the appellants' copyright in literary and artistic works in the gaming machines, and literary works in the form of computer programs that operated the gaming machines. The artwork for 400 gaming machines had been produced in breach of the appellants' copyright. The trial Judge ordered compensatory damages of \$80,000 and additional damages of \$40,000 (using an incorrect accounting for profits approach). On appeal, the full Court awarded nominal damages of \$1, and took into account these factors in awarding \$200,000 additional damages: the infringements were flagrant; one of the respondents sought to cover up his involvement; the pecuniary benefit received; the need to deter similar infringement; the need to mark the Court's disapproval of the conduct; and the fact that the respondents failed to keep accurate records of their financial dealings making proof of loss more difficult. | \$200,000    |
| <i>Norm Engineering Pty Ltd v Digga Australia Pty Ltd</i> [2007] FCA 761, (2007) 162 FCR 1   | The applicant manufactured a "4 in 1 bucket" designed to be attached to a Bobcat. The respondent made drawing of the components on the applicant's bucket and used these to construct its own buckets, in breach of the applicant's copyright. The respondent then made 389 sales of infringing products. The Judge took account of the conscious copying by the respondent, and the benefit derived by the respondent, as well as deterrence.  | \$19,450     |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b>   |  |              |
|--|--|--------------|
| <b>Case reference</b>  | <b>Brief description</b>   | <b>Award</b> |
| <b>New Zealand cases</b>   |  |              |
| <p><i>Review Australia Pty Ltd v New Cover Group Pty Ltd</i> [2008] FCA 1589, (2008) 79 IPR 236 Note: damages in this case were awarded under s 75(3) of the Designs Act 2003 (Cth) which provides:</p> <p>(3)<br/>The court may award such additional damages as it considers appropriate, having regard to the flagrancy of the infringement and all other relevant matters.</p> | <p>The applicant, a designer and retailer of women's clothing, owned the design in issue (for a sleeveless, cross-over wrap dress), which was registered under the <i>Designs Act 2003</i> (Cth). The respondent made, imported and sold garments in infringement of the design. Kenny J was not satisfied the infringement was flagrant, accepting the respondents did not know it was a registered design, and ceased the infringing conduct when they became aware of the applicant's claim. However, additional damages were awarded because the respondent discovered no relevant documents concerning the manufacture, importation and sale of the infringing dress; an omission which was not satisfactorily explained. Further, the respondent did not participate in hearings. The Judge did not want design infringers to be given the impression that by ignoring court proceedings they could escape the consequences of their infringement.</p> | \$50,000     |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |   |              |
|--|---|--------------|
| <b>Case reference</b>  | <b>Brief description</b>  | <b>Award</b> |
| <b>New Zealand cases</b>   |   |              |
| <i>Elwood Clothing Pty Ltd v Cotton On Clothing Pty Ltd</i> [2009] FCA 633, (2009) 81 IPR 378  | <p>Cotton On infringed copyright by copying from Elwood designs applied to a T-shirt, and a design on a swing tag. Cotton On purchased Elwood's T-shirt and instructed its employees to make a garment that was "the same but different".</p> <p>Relevant to awarding additional damages, the Judge noted Cotton On failed to disclose these facts in its affidavit, and only revealed them during cross-examination. Further, Cotton On continued to sell the garments until they were all sold after it was put on notice of Elwood's copyright. The Court found the infringement was flagrant. It also found Cotton On's design method was to send "shoppers" around the world to identify "winners" and then copy them. The Court noted there was a need to deter that method of designing.</p> | \$150,000    |

| <b>Comparable awards of additional damages under s 121(2) Copyright Act 1994 (or its New Zealand predecessor or Australian equivalent)</b> |  |              |
|--|--|--------------|
| <b>Case reference</b>  | <b>Brief description</b>   | <b>Award</b> |
| <b>New Zealand cases</b>   |  |              |
| <i>Seafolly Pty Ltd v Fewstone Pty Ltd</i> [2014] FCA 321, (2014) 106 IPR 85   | Both Seafolly and Fewstone design, manufacture and sell swimwear. They compete, and their products are aimed at different, but overlapping, demographics. Fewstone's products are cheaper. It was found that three of Fewstone's swimwear prints breached Seafolly's copyright. \$80,333.06 was awarded as compensatory damages for loss of profits; \$20,000 for damage to reputation; and \$150,000 additional damages. In awarding the additional damages, the Court took into account the following: Fewstone intended to imitate Seafolly's artistic works (for example, in one case it sent one of Seafolly's garments to its Chinese manufacturer without any other substantive instruction) although it did try to change the patterns slightly and spent some money on this; it continued to sell goods after notice of Seafolly's concerns about copyright infringement; its important lay witnesses were not candid or responsive; it initially failed to disclose that it had reference to Seafolly's relevant garments and failed to properly make discovery; it had the benefit of 11,638 sales of infringing products; and general and specific deterrence warranted a substantial award of additional damages. | \$150,000    |