FEDERAL COURT OF AUSTRALIA

Tamawood Limited v Habitare Developments Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed) (No 6) [2013] FCA 1383

Citation:	Tamawood Limited v Habitare Developments Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed) (No 6) [2013] FCA 1383
Parties:	**TAMAWOOD LIMITED (ACN 010 954 499) v HABITARE DEVELOPMENTS PTY LTD (ADMINISTRATORS APPOINTED) (RECEIVERS AND MANAGERS APPOINTED) (ACN 122 935 497), BLOOMER CONSTRUCTIONS (QLD) PTY LTD (ACN 071 344 100), PETER FREDERICK O'MARA, DAVID GAVIN JOHNSON, WAYNE NORMAN BLOOMER, HABITARE PTY LTD (ACN 098 209 495), EIGHT MARCH PTY LTD (ACN 099 315 787) (AS TRUSTEE OF THE EIGHT MARCH DISCRETIONARY TRUST), FIRST PRIORITY DEVELOPMENTS PTY LTD (ACN 098 329 465) (AS TRUSTEE OF THE FIRST PRIORITY DISCRETIONARY TRUST) and MONDO ARCHITECTS PTY LTD (ACN 085 992 990)**
File number:	NSD 2504 of 2007
Judge:	**COLLIER J**
Date of judgment:	17 December 2013
Catchwords:	**COSTS** – respondents infringed applicant's copyright – where respondents substantiated statutory defence of innocent infringement – s 115(3) *Copyright Act 1968* (Cth) – whether applicant acted unreasonably in rejecting two Calderbank offers by respondents prior to trial – applicant to pay costs of respondents on party and party basis prior to settlement offer – applicant to pay costs of respondents on indemnity basis after settlement offer
Legislation:	*Copyright Act 1968* (Cth) s 115(3) *Federal Court of Australia Act 1976* (Cth) s 43 *Federal Court Rules 2011* (Cth) r 25.14
Cases cited:	*Australian Competition and Consumer Commission v Telstra Corporation Limited* [2007] FCA 2058 cited *Calderbank v Calderbank* [1975] 3 All ER 333 cited *De Rose v State of South Australia (No 2)* [2005] FCAFC

137 cited
GPT Management Ltd v Spa Heaven Pty Ltd [2005] NSWSC 1043 cited
Hughes v Western Australian Cricket Association (Inc) (1986) 8 ATPR 40-748 cited
Lend Lease GPT (Rouse Hill) Pty Ltd v Hills Shire Council (No 2) [2011] NSWLEC 26 cited
Oshlack v Richmond River Council (1998) 193 CLR 72 cited
Pondcil Pty Ltd v Tropical Reef Shipyard Pty Ltd (unreported, Cooper J, 19 August 1994) cited
Ryding v Miles (No 2) [2012] NSWSC 312 cited
Tamawood Limited v Habitare Developments Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed) (No 3) (2013) 101 IPR 225; [2013] FCA 410 cited

Date of hearing:	26 November 2013
Place:	Brisbane
Division:	GENERAL DIVISION
Category:	Catchwords
Number of paragraphs:	16
Counsel for the Applicant:	Mr R Cobden SC with Mr R Alkadamani
Solicitor for the Applicant:	Castrission & Co
Counsel for the Second and Fifth Respondents:	Mr T Matthews QC
Solicitor for the Second and Fifth Respondents:	Romans & Romans Lawyers

IN THE FEDERAL COURT OF AUSTRALIA
QUEENSLAND DISTRICT REGISTRY
GENERAL DIVISION

NSD 2504 of 2007

BETWEEN:	TAMAWOOD LIMITED (ACN 010 954 499) Applicant
AND:	HABITARE DEVELOPMENTS PTY LTD (ADMINISTRATORS APPOINTED) (RECEIVERS AND MANAGERS APPOINTED) (ACN 122 935 497) First Respondent
	BLOOMER CONSTRUCTIONS (QLD) PTY LTD (ACN 071 344 100) Second Respondent
	PETER FREDERICK O'MARA Third Respondent
	DAVID GAVIN JOHNSON Fourth Respondent
	WAYNE NORMAN BLOOMER Fifth Respondent
	HABITARE PTY LTD (ACN 098 209 495) Sixth Respondent
	EIGHT MARCH PTY LTD (ACN 099 315 787) (AS TRUSTEE OF THE EIGHT MARCH DISCRETIONARY TRUST) Seventh Respondent
	FIRST PRIORITY DEVELOPMENTS PTY LTD (ACN 098 329 465) (AS TRUSTEE OF THE FIRST PRIORITY DISCRETIONARY TRUST) Eighth Respondent
	MONDO ARCHITECTS PTY LTD (ACN 085 992 990) Ninth Respondent

JUDGE:	COLLIER J
DATE OF ORDER:	17 DECEMBER 2013
WHERE MADE:	BRISBANE

THE COURT ORDERS THAT:

1. Tamawood Limited ACN 010 954 499 pay the costs of Bloomer Constructions (Qld) Pty Ltd ACN 071 344 100 and Wayne Norman Bloomer:

   - incurred prior to 2 September 2011 of and incidental to these proceedings on a party and party basis;
   - incurred on or after 2 September 2011 of and incidental to these proceedings on an indemnity basis;

   such costs to be taxed if not otherwise agreed.

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

IN THE FEDERAL COURT OF AUSTRALIA
QUEENSLAND DISTRICT REGISTRY
GENERAL DIVISION

NSD 2504 of 2007

BETWEEN:	TAMAWOOD LIMITED (ACN 010 954 499) Applicant
AND:	HABITARE DEVELOPMENTS PTY LTD (ADMINISTRATORS APPOINTED) (RECEIVERS AND MANAGERS APPOINTED) (ACN 122 935 497) First Respondent
	BLOOMER CONSTRUCTIONS (QLD) PTY LTD (ACN 071 344 100) Second Respondent
	PETER FREDERICK O'MARA Third Respondent
	DAVID GAVIN JOHNSON Fourth Respondent
	WAYNE NORMAN BLOOMER Fifth Respondent
	HABITARE PTY LTD (ACN 098 209 495) Sixth Respondent
	EIGHT MARCH PTY LTD (ACN 099 315 787) (AS TRUSTEE OF THE EIGHT MARCH DISCRETIONARY TRUST) Seventh Respondent
	FIRST PRIORITY DEVELOPMENTS PTY LTD (ACN 098 329 465) (AS TRUSTEE OF THE FIRST PRIORITY DISCRETIONARY TRUST) Eighth Respondent
	MONDO ARCHITECTS PTY LTD (ACN 085 992 990) Ninth Respondent
JUDGE:	COLLIER J
DATE:	17 DECEMBER 2013
PLACE:	BRISBANE

REASONS FOR JUDGMENT

1 In *Tamawood Limited v Habitare Developments Pty Ltd (Administrators Appointed) (Receivers and Managers Appointed) (No 3)* (2013) 101 IPR 225; [2013] FCA 410 I found that the second and fifth respondents, Bloomer Constructions (Qld) Pty Ltd and its director Mr Wayne Bloomer ("the Bloomer respondents"), innocently infringed the copyright of the applicant Tamawood Limited ("Tamawood") in respect of Tamawood's "Torrington" designs, and that they made out a defence under s 115(3) of the *Copyright Act 1968* (Cth) ("Copyright Act"). I have made declarations to this effect.

2 Before me the only live issue remaining as between Tamawood on the one hand and the second and fifth respondents on the other concerns the appropriate award of costs. In summary the Bloomer respondents submit that:

- as they have substantiated a statutory defence against Tamawood under s 115(3) of the Copyright Act, they should receive their costs from Tamawood, on the basis that costs ordinarily follow the event; and
- the Court should take into account two Calderbank offers they made to Tamawood to settle the proceedings prior to trial in crafting the appropriate costs order.

3 Tamawood submits that it has been successful in obtaining declarations to the effect that the Bloomer respondents infringed their copyright (albeit innocently), and it follows that Tamawood is entitled to its costs from the Bloomer respondents.

CONSIDERATION

Where should costs fall?

4 While the Court has broad discretion to make a costs order pursuant to s 43 of the *Federal Court of Australia Act 1976* (Cth), it is well-settled that, as a general proposition, costs follow the event (*Hughes v Western Australian Cricket Association (Inc)* (1986) 8 ATPR 40-748, *De Rose v State of South Australia (No 2)* [2005] FCAFC 137, *Oshlack v Richmond River Council* (1998) 193 CLR 72). So, where a respondent successfully raises a defence, as a general proposition the respondent is deemed successful so far as "the event" is concerned and the proper allocation of costs (*GPT Management Ltd v Spa Heaven Pty Ltd* [2005] NSWSC 1043, *Pondcil Pty Ltd v Tropical Reef Shipyard Pty Ltd* (unreported, Cooper J, 19 August 1994), *Lend Lease GPT (Rouse Hill) Pty Ltd v Hills Shire Council (No 2)* [2011] NSWLEC 26, *Ryding v Miles (No 2)* [2012] NSWSC 312, cf *Australian*

Competition and Consumer Commission v Telstra Corporation Limited [2007] FCA 2058 at [10]).

5 In this case however Tamawood submits, in summary:

- Tamawood was entitled to declarations that the Bloomer respondents infringed Tamawood's copyright, albeit innocently.
- The Bloomer respondents chose to throw themselves into the fray. They could have accepted that Tamawood was the owner of the copyright in the relevant plans and not put in issue three-dimensional infringement or authorisation and thereby confined the issues between the parties to a defence under s 115(3) of the Copyright Act.
- Instead, by their pleadings, until July 2011 the Bloomer respondents took an identical position to the Habitare respondents.
- Tamawood was justified in prosecuting the proceedings as against the Bloomer respondents, particularly in light of the fact that, in the final iteration of their defence, they did not admit either the subsistence of copyright in Tamawood in respect of their drawings or that the building of houses by Bloomer constructions infringed Tamawood's copyright.

6 In my view Tamawood should pay the costs of the Bloomer respondents.

7 It was not in dispute at the recent hearing that Tamawood sought a declaration concerning the infringement of its copyright by the Bloomer respondents because there was commercial and practical utility in obtaining from the Court a public statement to that effect, particularly in the highly competitive environment in which Tamawood operates. While Tamawood was entitled to a declaration, it was appropriate that this declaration be heavily qualified not only by reference to the fact that the infringement concerned only one of the Tamawood designs, but by reference to the innocence of the Bloomer respondents. Further, this outcome must be considered in light of the facts that:

- I found that the Bloomer respondents only innocently infringed Tamawood's copyright in relation to ***one*** of the designs, namely the Torrington, and did not infringe copyright in any other Tamawood designs. It was perfectly reasonable, in my view, for the Bloomer respondents to defend the breadth of Tamawood's case against them.
- The Bloomer respondents consistently denied that they were at fault.

- In a letter from their solicitors to Tamawood's legal representatives dated 13 October 2011 the Bloomer respondents informed Tamawood that they had made no profit from the projects involving the Habitare dwellings.
- As Mr Bloomer deposed in his affidavits of 26 September 2011 and 22 November 2013, he had no notice of any issue of infringement of Tamawood's copyright until the Habitare projects upon which the Bloomer respondents worked were almost or totally completed.
- As was clear from the manner in which the trial was conducted, the Bloomer respondents put Tamawood to proof. To that extent, it does not appear that the approach of the Bloomer respondents to the proceedings unnecessarily inflated costs incurred.
- Prior to the trial, and in particular by communications of 2 September 2011 and 13 October 2011, the Bloomer respondents offered to settle the proceedings with Tamawood and bear their own costs, but this offer was rejected by Tamawood and the trial commenced on 18 October 2011.

8 In my view, Tamawood's pursuit of the Bloomer respondents, with little result – namely heavily qualified declarations which were limited to one of the Tamawood designs only and which exonerated the Bloomer respondents from any deliberate infringement – was reflective of Tamawood's wish to make an example of the Bloomer respondents as builders who had innocently become involved in the matter.

9 I see no reason why the Bloomer respondents should pay Tamawood's costs in such circumstances. I also see no reason why the Bloomer respondents should bear their own costs when they have successfully resisted Tamawood's claims – completely in relation to all designs but the Torrington design, and having raised a successful defence in relation to the Torrington design.

Party and party or indemnity costs?

10 Further, in my view Tamawood should pay – on a party and party basis – the costs of the Bloomer respondents incurred until 2 September 2011. Costs incurred by the Bloomer respondents on or after that date should be paid by Tamawood on an indemnity basis.

11 The significance of 2 September 2011 is that on that date Mr Romans, solicitor for the Bloomer respondents, sent an email to the solicitor for Tamawood in the following terms:

"WITHOUT PREJUDICE"

Dear John,

I refer to our telephone conversation today.

Mr Bloomer instructs me that:

1. He took over the building project after it was commenced by another builder, Caprice Homes, and that the project was already about 10% completed. My client was not the original builder. Mr Bloomer had no involvement in the approval of any of the drawings as that was all completed well before his involvement; and

2. He did not receive any drawings which bore your client's emblem. The full set of drawings he received from the developer will be forwarded to you shortly but I am instructed that none of them bear your client's name or emblem.

Consequently my clients will be able to prove to the Court that they were not aware of any (alleged) breach of copyright by the other parties and that it was reasonable for them to rely on the developer's warranties in the contract. In the circumstances your client's claim against my clients is unjustifiable.

With respect to costs, my clients know they have done no wrong to your client and cannot justify morally making any payment to your client. My clients have not contributed to any loss or increase in legal costs incurred by your client. In fact our clients have incurred expense in being joined to the proceeding by your client in circumstances where they have done no wrong. As such my clients are only prepared to settle on the basis that they and your client walk away from the proceeding bearing their own costs to date and hereby offer to do so in full and final satisfaction of your client's claim.

If your client is only prepared to settle its claim upon payment of a sum of money from our clients, then our clients, as a matter of principle, will spare no cost in instructing us to prepare for and appear at the trial and will seek their costs against your client. We reserve our rights to tender this email to the Court on the issue of costs.

12 I note further that on 13 October 2011 Mr Romans faxed the solicitor for Tamawood, stating materially:

Our clients deny any liability in respect of any of the matters pleaded in the statement of claim. Our clients are innocent parties who received drawings which did not refer to your client in any way. Furthermore our clients did not profit from the projects. Our clients propose that your client discontinues its claims against our clients on the basis that each party walks away and bears its own costs of the proceeding.

This offer is open for acceptance until 5pm on Friday 14 October 2011, failing which it will lapse and be incapable of acceptance ...

13 The Bloomer respondents rely on the principle articulated in the well-known case of *Calderbank v Calderbank* [1975] 3 All ER 333. I note that the substance of that principle is incorporated into r 25.14 of the *Federal Court Rules 2011* (Cth), which provides:

> (1) ...
>
> (2) If an offer is made by a respondent and an applicant unreasonably fails to accept the offer and the applicant's proceeding is dismissed, the respondent is entitled to an order that the applicant pay the respondent's costs:
>
> (a) before 11.00 a.m. on the second business day after the offer was served — on a party and party basis; and
>
> (b) after the time mentioned in paragraph (a) — on an indemnity basis.

14 Strictly, I do not consider r 25.14 applicable on the facts of this case. In this case Tamawood's case against the Bloomer respondents was dismissed in respect of all matters except the Torrington design, and in that regard I was satisfied that the Bloomer respondents had substantiated a defence under s 115(3) of the Copyright Act. While Tamawood would have been entitled to an account of profits pursuant to that section:

- it is clear that the Bloomer respondents informed Tamawood on 13 October 2011 that they had derived no profits from the projects;
- there is evidence before the Court that on 18 October 2011 Mr Romans provided financial information prepared by accountant Mr Bill McMillan detailing the fact that the Bloomer respondents had made no profit from the Habitare projects;
- Mr McMillan's calculations were accepted as correct in the joint expert report of 22 November 2013 prepared by Mr Peter Haley; and
- despite pursuing the Bloomer respondents in respect of an account of profits virtually to the door of the Court at the hearing of 26 November 2013 Tamawood finally accepted that the Bloomer respondents had made no profit from the project.

15 In my view the facts demonstrate that Tamawood acted unreasonably in rejecting the settlement offer of the Bloomer respondents of 2 September 2011 (which was followed by the further offer of 13 October 2011). I am satisfied that the Bloomer respondents gave Tamawood adequate time to consider their settlement offer, however I am also of the view that Tamawood was determined to pursue the matter to conclusion irrespective of the facts put before it.

16 In the circumstances I consider it appropriate that the Bloomer respondents be reimbursed on an indemnity basis after 2 September 2011 for their costs incurred in what was ultimately, for them, pointless litigation.

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

Associate: Burrell

Dated: 17 December 2013