FEDERAL COURT OF AUSTRALIA

Taylor v Killer Queen LLC [2020] FCA 444

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| File number: |  |
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| Judge: | **MARKOVIC J** |
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| Date of judgment: | 7 April 2020 |
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| Catchwords: | **PRACTICE AND PROCEDURE** – application for an order pursuant to r 30.01 of the *Federal Court Rules 2011* (Cth) that all issues of liability be heard separately from and prior to all other issues in the proceeding – whether just and convenient to make the order – whether the order will contribute to a saving in time and costs – whether there will be any overlap between the evidence adduced in relation to liability and quantum and the effect of such an overlap – whether the order will increase prospects of settlement – application allowed |
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| Legislation: | *Federal Court of Australia Act 1976* (Cth) s 37M  *Trade Marks Act 1995* (Cth) ss 44, 88, 62A, 120, 122, 124, 126  *Federal Court Rules 2011* (Cth) r 30.01  *Federal Court Rules 1979* (Cth) O 29 r 2 (repealed) |
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| Cases cited: | *ABB v Freight Rail* [1999] NSWSC 1037  *Clipsal Australia Pty Ltd v Clipso Electrical Pty Ltd (No 3)* [2017] FCA 60  *DC Comics v Cheqout Pty Ltd* (2013) 212 FCR 194  *Fleming’s Nurseries Pty Ltd v Hannaford* [2008] FCA 591  *Hard Coffee Pty Ltd v Hard Coffee Mainbeach Pty Ltd* [2009] ATMO 26; [2009] AIPC 92-343  *Reading Australia Pty Ltd v Australian Mutual Provident Society* (1999) 240 FCR 276 |
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| Date of hearing: | 20 March 2020 |
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| Registry: |  |
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| Division: |  |
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| Category: | Catchwords |
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| Counsel for the Applicant: | Mr R Cobden SC and Mr R Clark |
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| Counsel for the Respondent: | Ms E Bathurst |
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| Solicitor for the Respondent: | Corrs Chambers Westgarth |

ORDERS

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|  | | NSD 1774 of 2019 |
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| BETWEEN: | MS KATIE JANE TAYLOR  Applicant | |
| AND: | KILLER QUEEN, LLC  First Respondent  MS KATHERYN ELIZABETH HUDSON  Second Respondent | |

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| JUDGE: | MARKOVIC J |
| DATE OF ORDER: | 7 APRIL 2020 |

THE COURT ORDERS THAT:

1. Pursuant to r 30.01 of the *Federal Court Rules 2011* (Cth), all issues of liability, entitlement to additional damages for alleged trade mark infringement and all claims for declaratory and injunctive relief, be heard and determined separately from, and prior to, all other issues and claims in the proceeding.
2. The applicant pay the respondents’ costs of the interlocutory application filed on 3 March 2020.
3. The proceeding be listed for case management hearing on 23 April 2020 at 9.30 am with such case management hearing to take place by telephone or other electronic means, unless the parties provide the Associate to Markovic J with draft consent orders prior to that time.

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

REASONS FOR JUDGMENT

MARKOVIC J:

1. This is an application made by the respondents, Killer Queen, LLC (**Killer Queen**) and Katheryn Elizabeth Hudson, pursuant to r 30.01 of the *Federal Court Rules 2011* (Cth) (**Rules**) for an order that all issues of liability, entitlement to additional damages for alleged trade mark infringement and all claims for declaratory and injunctive relief sought in this proceeding by the applicant, Katie Jane Taylor, be heard and determined separately from, and prior to, all other issues and claims in the proceeding.
2. Ms Taylor designs and sells clothes under the brand name “KATIE PERRY”.
3. Ms Hudson is a professional musical artist who in 2004 adopted the name Katy Perry, a combination of the short form of her own first name and her mother’s maiden name, for the purposes of her professional musical career and associated commercial merchandise licensing activities. Killer Queen is a company established in California, United States of America. Ms Hudson is a manager and/or member of Killer Queen.

# The proceeding

## The amended statement of claim and defence

1. In her amended statement of claim Ms Taylor alleges that:
2. since about November 2006 she has designed, marketed, offered for sale and sold clothes under the brand “KATIE PERRY”;
3. she is the registered owner of Australian trade mark no 1264761 for the word “KATIE PERRY” (**Applicant’s Mark**) which is registered in class 25 for clothes and has a priority date of 29 September 2008;
4. Killer Queen or Ms Hudson individually or jointly have done one or more of the following acts: imported for sale, distributed, advertised, promoted, marketed, offered for sale, supplied, sold and/or manufactured in Australia or to people in Australia, clothes or goods of the same description, bearing or in association with the word mark KATY PERRY and other marks which are set out at para 7 of the amended statement of claim, and which in each case are differently styled versions of the word mark (together, the **Alleged Infringing Marks**). Ms Taylor particularises six ways in which the respondents are said to have engaged in those acts;
5. further, or in the alternative, Killer Queen or Ms Hudson individually or jointly were party to, or further or alternatively aided, counselled, directed or joined in, the acts referred to in the preceding subparagraph and thereby participated in a common design, and/or participated in a common design with operators of pop-up stores and/or specified websites and department stores, to carry out the acts referred to in the preceding subparagraph;
6. each of the Alleged Infringing Marks is substantially identical with, or deceptively similar to, the Applicant’s Mark and the alleged conduct set out in subparas (3) and/or (4) above constituted use of the Alleged Infringing Marks as trade marks in respect of clothes and further, or in the alternative, in respect of goods of the same description; and
7. the conduct engaged in by Killer Queen and Ms Hudson infringed the Applicant’s Mark pursuant to s 120(1) and (2) of the *Trade Marks Act 1995* (Cth) (**TM Act**).
8. By reason of those alleged breaches Ms Taylor seeks either an account of profits or damages; and, in addition, Ms Taylor alleges that the conduct of Killer Queen and/or Ms Hudson has been such as to attract additional damages pursuant to s 126(2) of the TM Act.
9. In their defence, the respondents:
10. say that they provided licences of the KATY PERRY name, brand and trade mark on commercial terms to various persons and that, pursuant to those licences, merchandise, including clothes, bearing the name, brand and trade mark KATY PERRY, in various colours and forms of stylisation, have been offered for sale, supplied and sold by persons, including retailers, to persons resident in Australia, including by way of online sales;
11. admit that the trade mark KATY PERRY and each of the other stylised trade mark representations (which are together the Alleged Infringing Marks) is deceptively similar to the Applicant’s Mark;
12. admit, in relation to the merchandise set out in subpara (1) above, that the name Katy Perry is used as a trade mark in relation to that merchandise by or under the control of the respondents, or one of them;
13. deny that they have infringed the Applicant’s Mark pursuant to s 120(1) and (2) of the TM Act because:
    1. by operation of s 122(1)(a)(i) of the TM Act Ms Hudson uses the name Katy Perry in good faith;
    2. by operation of s 122(1)(a)(ii) of the TM Act Killer Queen uses the name Katy Perry in good faith;
    3. by operation of s 122(1)(fa) of the TM Act the respondents would obtain registration of the trade mark KATY PERRY in their own name if they were to apply for it;
    4. by operation of s 124 of the TM Act the respondents have continuously used in the course of trade the trade mark KATY PERRY in relation to clothes or goods similar to clothes from a time before the date of registration of the Applicant’s Mark or, in the alternative, if, which is not admitted, Ms Taylor used the Applicant’s Mark before the date of registration, the date of any such use; and
    5. the Applicant’s Mark is liable to cancellation from the Register of Trade Marks (**Register**) as alleged in the cross claim (see [7] below); and
14. deny that Ms Taylor is entitled to any of the relief she claims.

## The cross claim

1. The respondents have filed a cross claim pursuant to which they contend that the Applicant’s Mark is liable to cancellation from the Register under s 88(1)(a) of the TM Act on the following grounds:
2. before the priority date for the Applicant’s Mark, the trade mark KATY PERRY had acquired a reputation in Australia (s 60 of the TM Act) such that the Applicant’s Mark is liable to be cancelled on the ground set out in s 88(2)(a) of the TM Act;
3. the use of the Applicant’s Mark is contrary to law. It is alleged that because of the reputation in the trade mark KATY PERRY the use of the Applicant’s Mark would amount to misleading or deceptive conduct in breach of s 18 of the *Competition and Consumer Act 2010* (Cth) and constitute unlawful passing off (s 42 of the TM Act) such that it is liable to be cancelled on the ground set out in s 88(2)(a) of the TM Act;
4. the use of the Applicant’s Mark in relation to clothes would be likely to deceive or cause confusion (s 43 of the TM Act) such that it is liable to be cancelled on the ground set out in s 88(2)(a) of the TM Act;
5. the application for registration of the Applicant’s Mark was made in bad faith (s 62A of the TM Act) such that it is liable to be cancelled on the ground set out in s 88(2)(a) of the TM Act; and/or
6. the use of the Applicant’s Mark is likely to deceive or cause confusion such that it is liable to be cancelled on the ground set out in s 88(2)(c) of the TM Act.
7. Ms Taylor, in effect, denies each of the allegations in the cross claim.

# Legal principles

1. Rule 30.01(1) of the Rules provides that a party may apply to the Court for an order that a question arising in the proceeding be heard separately from any other questions.
2. The principles guiding the exercise of the discretion in r 30.01(1) of the Rules were not in issue. Those principles were summarised by Branson J in *Reading Australia Pty Ltd v Australian Mutual Provident Society* (1999) 240 FCR 276 (***Reading***). There her Honour considered whether to make an order under the former rule, O 29 r 2 of the *Federal Court Rules 1979* (Cth) (**1979 Rules**). At [8] her Honour said:

The principles that govern the circumstances in which an order will be made under O 29, r 2 are relatively well established. They may be summarised as follows:

(a) the term “question” in O 29, r 1 includes any question or issue of fact or law in a proceeding. The distinction in the rule between an “issue” and a “question” is the distinction between that which, when resolved, will result in an adjudication in favour of one party or the other, being an “issue”, and less decisive matters of dispute being “questions” (*Landsal Pty Ltd (in liq) v REI Building Society* (1993) 41 FCR 421 at 425);

(b) a question can be the subject of an order for a separate decision under O 29, r 2 even though a decision on such a question will not determine any of the parties’ rights (*Landsal Pty Ltd (in liq) v REI Building Society* at 425);

(c) however, the judicial determination of a question under O 29, r 2 must involve a conclusive or final decision based on concrete and established or agreed facts for the purpose of quelling a controversy between the parties (*Bass v Permanent Trustee Company Ltd* (1999) 198 CLR 334 at [45]);

(d) where the preliminary question is one of mixed fact and law, it is necessary that the question can be precisely formulated and that all of the facts that are on any fairly arguable view relevant to the determination of the question are ascertainable either as facts assumed to be correct for the purposes of the preliminary determination, or as agreed facts or as facts to be judicially determined (*Jacobson v Ross* [1995] 1 VR 337 at 341, referring to *Attorney-General (UK) v Nissan* [1970] AC 179 at 242-243per Lord Pearson; *Bass v Perpetual Trustee* at [53]);

(e) care must be taken in utilising the procedure provided for in O 29, r 1 to avoid the determination of issues not “ripe” for separate and preliminary determination. An issue may not be “ripe” for separate and preliminary determination in this sense where it is simply one of two or more alternative ways in which an applicant frames its case and determination of the issue would leave significant other issues unresolved (*CBS Productions Pty Ltd v O’Neill* (1985) 1 NSWLR 601 at 606 per Kirby P);

(f) factors which tend to support the making of an order under O 29, r 2 include that the separate determination of the question may —

(i) contribute to the saving of time and cost by substantially narrowing the issues for trial, or even lead to disposal of the action; or

(ii) contribute to the settlement of the litigation (*CBS Productions Pty Ltd v O’Neill* at 607 per Kirby P);

(g) factors which tell against the making of an order under O 29, r 2 include that the separate determination of the question may —

(i) give rise to significant contested factual issues both at the time of the hearing of the preliminary question and at the time of trial (*GMB Research & Development Pty Ltd v Commonwealth* [1997] FCA 934);

(ii) result in significant overlap between the evidence adduced on the hearing of the separate question and at trial — possibly involving the calling of the same witnesses at both stages of the hearing of the proceeding (*GMB Research & Development Pty Ltd v Commonwealth; Arnold v Attorney-General (Vic)* [1995] FCA 727). This factor will be of particular significance if the Court may be required to form a view as to the credibility of witnesses who may give evidence at both stages of the hearing of the proceeding; or

(iii) prolong rather than shorten the litigation (*GMB Research & Development Pty Ltd v Commonwealth*).

1. In *Fleming’s Nurseries Pty Ltd v Hannaford* [2008] FCA 591 (***Fleming’s Nurseries***) Kenny J also considered an application for an order pursuant to O 29 r 2 of the 1979 Rules that there be a separate trial of all issues of liability in the proceeding, prior to any trial of all issues of quantum of damages and/or an account of profits. At [17], after referring to the decision in *Reading*,her Honour observed that:

… Ultimately, the question is whether, in the exercise of the Court’s discretion, this is an appropriate case for the departure from the ordinary course that all issues of fact and law should be determined at the one time, on the basis that it is just and convenient for the order to be made: see *Reading* at [9]; *Tallglen Pty Ltd v Pay TV Holdings Pty Ltd* (1996) 22 ACSR 130. As counsel for the applicants pointed out, the outcome of the reported decisions on O 29 r 2 turns in each instance on the nature of the case and the particular circumstances relevant to it.

1. At [18] Kenny J also observed that it was “customary” in intellectual property cases to hear and determine issues of liability separately and before issues of pecuniary relief. Her Honour explained that was so because “it is generally thought just and convenient to so order on account of the fact that an applicant in such a case is not compelled to make an election as between damages and an account of profits at least before the evidence on liability has been received”.
2. My attention was also drawn to the decision in *ABB v Freight Rail* [1999] NSWSC 1037 (***ABB***) in which Rolfe J refused to make an order, although the parties had consented to an order, that the hearing of liability be heard separately from, and in advance of, quantum. That was so for a number of reasons including that there was no guarantee that certain witnesses would not give evidence on the issues of liability and of damages. At [15] his Honour said:

… In my view, it would require an exceptional case for the Court to order a separate hearing of liability and damages when any witness is likely to give evidence on both issues. The reasons are obvious. A case should be conducted on the basis that the witness is cross-examined on all issues at the same time and in the context of all issues, because his or her evidence on one issue may impact on the acceptability of his or her evidence on the other. …

1. At [16] Rolfe J observed that a further difficulty was that if a judge hearing the issue of liability makes any finding about the credit of a witness who will also give evidence in the event of the question of damages being litigated, that judge will, in all probability, be disqualified from hearing the matter. His Honour noted that in those circumstances the “store of knowledge” that the judge had obtained from the initial hearing would be lost as would the impact of evidence upon that judge.

# The evidence

1. Ms Taylor relied on evidence given by her solicitor, Robert Anthony Silberstein, and the respondents relied on evidence given by their solicitor, Odette Margaret Gourley. Both Mr Silberstein and Ms Gourley are experienced solicitors, having each had considerable experience in conducting litigation in intellectual property and related areas. In a number of areas Mr Silberstein and Ms Gourley agreed on approach or issues. To the extent they disagreed, that disagreement was largely a matter of degree or emphasis having regard to the positions of their respective clients. Where necessary I refer to their evidence below.

# Consideration

1. The parties made submissions having regard to the factors identified by Branson J in *Reading* at [8(f)-(g)] focusing on whether splitting the hearing of issues as between liability and quantum will be more efficient and contribute to a saving in time and cost; will contribute to the settlement of the litigation; and whether there will be any overlap between the evidence adduced in relation to the issues of liability and of quantum and, if so, the effect of such an overlap if the hearing of those issues is split. Before turning to consider those submissions, it is timely to recall that, as recognised by Branson J in *Reading* at [7], as a general rule, all issues of fact and law in a proceeding will usually be determined at one time. However, this general rule has been modified by making orders, previously under O 29 r 2 of the 1979 Rules and, more recently, under r 30.01 of the Rules. The issue for determination before me is whether, in the circumstances of this case, it is just and convenient for the order sought by the respondents to be made.

## Time and cost of the proceeding

1. Ms Taylor does not intend to make her election for an account of profits or damages and additional damages until at least evidence of quantum has been exchanged. It follows that, as things presently stand, Ms Taylor will seek disclosure of documents and evidence will need to be filed relevant both to an account of profits and to damages.
2. Insofar as disclosure of documents is concerned, Ms Taylor has provided the categories of documents in which she seeks discovery to the respondents. They include:

8. Documents which record any one or more of the following pieces of information:

a. the stock-keeping unit (**SKU**);

b. item description;

c. cost price;

d. wholesale price;

e. retail price;

f. stock quantity at any given time,

of all clothes or Related Goods marketed or sold bearing the Infringing Marks, or in association with the Infringing Marks, in Australia or to people in Australia, after 24 October 2013 (the **Relevant Goods**). If documents exist accurately recording that or any of that information in summary form for particular periods, for example in quarterly or monthly reports, that will be sufficient in the first instance.

9. Summary documents which record the:

a. number of Relevant Goods sold (by reference to each SKU);

b. revenue derived by the Respondents, or any related party of the Respondents, from the sale of the Relevant Goods; and

c. net profit derived by the Respondents, or any related party of the Respondents, from the sale of the Relevant Goods.

(Original emphasis.)

1. It is convenient to address this aspect of the matter first insofar as it impacts on the cost and timing of the proceeding.
2. The respondents are concerned, as is evident from Mr Silberstein’s evidence, that in the absence of an order separating issues of liability from pecuniary relief they will be required to provide discovery in categories of documents that go both to an account of profits and to damages and to lead evidence addressing both scenarios. They contend that addressing both scenarios, both in terms of discovery and evidence, is a substantial exercise that may be otiose.
3. The respondents submit, based on Ms Gourley’s evidence, that generally discovery sought in respect of quantum is extensive and complicated and that the categories sought by Ms Taylor (see [18] above) reinforce that position. Those categories cover a long time period and a wide number of websites and sales channels.
4. In terms of discovery, Ms Taylor submits that the primary additional documents required for quantum are sales figures and documents establishing profits on such sales. In terms of evidence to be adduced, Ms Taylor accepts that additional evidence, including expert evidence, would be required in a trial on all issues at an earlier stage but contends that at least evidence as to damages or on an account of profits will be required in any event if she is successful on liability. Ms Taylor says that the only real potential matter where evidence would not be required would be evidence on *either* an account of profits basis or damages. Ms Taylor contends that while some time or costs would be saved, those savings would not necessarily be significant.
5. If there is no order for separation of issues of liability from pecuniary relief the parties will be required to provide additional discovery of documents going to quantum and to prepare evidence in relation to quantum. Given that Ms Taylor has not yet made an election, this will need to be done on the two alternate bases on which she seeks relief: an account of profits and damages. In my opinion, having regard to the nature of the matter including the categories of discovery currently proposed by Ms Taylor, that task will not be insubstantial and will require the devotion of additional resources by both parties.
6. On the one hand, this application raises a timing issue; should the parties be required to devote their time and resources and incur the cost of preparing a trial on all issues now or should the issues be dealt with in stages so that the parties’ time, resources and costs are expended in stages. On the other hand, the application raises a very real issue about whether some of those resources would be expended at all subject to the outcome of a hearing on liability.
7. In my opinion, the parties ought not to be put to the additional expenditure of time, resources and cost of preparing the trial on issues of quantum at this stage. The outcome on liability issues will dictate whether the parties are required to move to the quantum phase and provide additional discovery and prepare additional evidence. If Ms Taylor is not able to establish liability or the respondents are successful on their cross claim, there will be no need to proceed with a hearing on quantum. Against that possibility, requiring the provision of additional discovery, whatever its scope, and the preparation of evidence going to quantum on two alternate bases at this stage imposes unnecessary and onerous obligations on both parties that is not in keeping with the spirit of s 37M of the *Federal Court of Australia Act 1976* (Cth) (**Federal Court Act**).
8. Proceeding in this manner also provides the benefit identified by Kenny J in *Fleming’s Nurseries* at [21]. That is, if Ms Taylor is successful in her principal claim and the cross claim is defeated, she seeks, and may obtain, injunctive relief. This would, in turn “provide an ‘end point’ to the respondent’s infringing conduct and a proper foundation for a consideration of the quantum of pecuniary relief”.
9. To reach this conclusion is not, as Ms Taylor submits, relying on *ABB* at [18], to start from the “pessimistic assumption” that she is likely to lose or to give more weight to the proposition that she is going to lose. Rather, it is arrived at having carefully considered the circumstances of the case and what is in the interests of the parties and the efficient and timely disposal of the proceeding.
10. The remaining factor to be addressed in this context is the impact of splitting the hearing of the issues on the length of the proceeding. Two issues arise.
11. First, the parties were agreed that a trial addressing both liability and quantum would be longer than a trial addressing questions of liability only, although they were unable to agree on the additional time or costs that would be required to deal with both issues. Notwithstanding what the period may be, it follows that any additional length to the trial will also result in the incurring of additional costs and use of additional resources. To the extent that is so, this factor also favours the making of the order sought by the respondents.
12. Secondly, Ms Taylor also raises, as an additional matter to be taken into account when considering the effect of splitting the issues, that if an order is made requiring the issue of liability to be determined first and before quantum, the overall time likely to be taken for the hearing of both issues will be longer. Ms Taylor contends this is so because of the overall time period when one takes into account the time for the hearing on liability, the period to judgment on liability issues, the time then to prepare for a hearing on quantum, the allocation of a second hearing date and then the period to judgment on quantum. In his evidence Mr Silberstein notes that where the hearing of the issues is split there is the possibility of an appeal arising in relation to orders made on liability alone which would delay the proceeding further and add to its cost.
13. I accept that, taking these possible outcomes into account, the overall time to completion may be longer where there is a requirement for a separate hearing on issues of liability and of quantum. But, the reality of whether that is so will ultimately depend on the docket judge’s availability and that of the parties and their legal representatives. That said, deferring the requirement for the parties to provide discovery and prepare evidence on quantum will almost certainly shorten the period for preparation of the matter for hearing on issues of liability such that the overall additional time to completion, where there are separate hearings on liability and quantum, is less likely to be significant.

## Common witnesses

1. As noted above, the second issue focused on by the parties was the risk of an overlap of evidence to be adduced on the hearing of liability and on the hearing of quantum. Ms Taylor contends that this is likely to occur because there will be common witnesses giving evidence in relation to both issues.
2. Ms Taylor submits that it is common ground that she will be required to give evidence at both hearings. She says that her credit will almost inevitably be an issue for two reasons. First, because the respondents seek to cancel the Applicant’s Mark on the basis of s 62A of the TM Act. Ms Taylor observes that an allegation of bad faith is a very serious one for which there would usually need to be “an element of intentional dishonesty or a deliberate attempt to mislead the Registrar”, citing *Hard Coffee Pty Ltd v Hard Coffee Mainbeach Pty Ltd* [2009] ATMO 26; [2009] AIPC 92-343 (***Hard Coffee***) at [11]-[12]. She submits that it is almost inevitable that the Court would have to make an adverse finding of credit against her, or at least make an adverse assessment as to her character, to satisfy s 62A of the TM Act. Secondly, because the respondents allege that Ms Taylor “encouraged” or “acquiesced to” their infringing conduct. Ms Taylor says that it is highly likely that the respondents will direct questions to her attitude towards them and that any asserted inconsistencies will lead to a real risk that issues of credit or character will arise.
3. Ms Taylor notes that it appears that the effect of Ms Gourley’s evidence is that Ms Hudson will not give evidence. However, she contends that outcome is highly unlikely because:
4. prior to the creation of Killer Queen in 2009 Ms Hudson was personally responsible for all use and/or licensing of the use of the KATY PERRY mark;
5. her allegations include that Ms Hudson engaged in a common design with Killer Queen and third parties selling goods branded with the KATY PERRY mark, including by reference to particulars of Ms Hudson’s personal knowledge of the actions of those third parties and her personal involvement in support of those actions; and
6. Ms Hudson raises a defence pursuant to s 122(1)(a)(i) of the TM Act and will rely on s 44(3) of the TM Act in respect of her defence pursuant to s 122(1)(fa) of the TM Act.
7. Ms Taylor submits that because of those matters it is highly likely that Ms Hudson will need to, and will, give evidence. If that occurs, it is likely that Ms Hudson will have to give evidence in respect of both liability and quantum and there is a risk of adverse findings of credit or character. Ms Taylor says that is so because of her claim for additional damages, which relates to Ms Hudson’s conduct in the period before Killer Queen was created, and submissions and evidence in response to the good faith use of own name and honest concurrent use defences and whether the respondents have, as a matter of fact, considered Ms Taylor’s conduct at all in doing what they have done.
8. Finally, Ms Taylor submits that, even if Ms Hudson does not give evidence, Ms Gourley’s evidence appears to concede that witnesses of fact for the respondents will necessarily give evidence in both the hearings on liability and quantum so that, at the least, there is a high likelihood that the same witnesses will give evidence at both trials and credit findings may be an issue for the same reasons.
9. While the respondents accept that Ms Taylor may need to be called twice, they submit that factor alone does not mean the order for separation is inappropriate, particularly in circumstances where, on their evidence, they do not anticipate that any serious credit issues will arise in respect of Ms Taylor’s evidence.
10. Ms Taylor’s concern is that if liability and quantum are split there is risk that there will be a credit finding against her which could cause the type of difficulties identified by Rolfe J in *ABB* (see [14] above). I accept that if a credit finding is made against a witness in determining liability before quantum, then an issue may arise as to whether the same judge is able to continue to hear and determine quantum. However, in my opinion that risk is low.
11. Ms Taylor’s concern and her submissions centre on the claim made by the respondents in their cross claim seeking cancellation of the Applicant’s Mark relying on s 62A of the TM Act. That section provides that the registration of a trade mark may be opposed on the ground that the application was made in bad faith.
12. Ms Taylor relies on the decision of a delegate of the Registrar of Trade Marks in *Hard Coffee* at [11]-[12] where, in considering s 62A of the TM Act, the delegate relevantly said:

11. For an assessment of ‘bad faith’ as it applies to such a situation it would appear that there would need to be an element of intentional dishonesty or a deliberate attempt to mislead the Registrar in some way in the claim made by means of the application. In circumstances where an applicant claims that the application was not made in bad faith but, rather, as a result of its own ignorance or naivety, then the evidence would need to show that the circumstances were such that the ‘reasonable man’ standing in the shoes of the applicant, should be aware that he ought not to apply for trade mark registration.

12. The onus of demonstrating ‘bad faith’ falls squarely on the party making such an allegation with the need for evidence able to fulfil the degree of proof required to satisfy the civil standard of ‘balance of probabilities’. That said, the allegation of ‘bad faith’ is a very serious one and a finding of bad faith should not be taken lightly. I note comments from a variety of jurisdictions in support of both propositions. …

1. However, in *Clipsal Australia Pty Ltd v Clipso Electrical Pty Ltd (No 3)* [2017] FCA 60 (***Clipsal***) at [196] Perram J in considering a claim made under s 62A of the TM Act said:

Bennett J summarised the effect of decisions in the United Kingdom on bad faith under the equivalent provision to s 62A in *DC Comics v Cheqout Pty Ltd* (2013) 212 FCR 194 in these terms (at 206 [62]):

62 …

* Bad faith is a serious allegation and the more serious the allegation, the more cogent the evidence required to support it.
* Bad faith does not require dishonesty.
* Bad faith is a combined test that involves subjective and objective elements. The subjective element refers to the knowledge of the relevant person at the time of making the application. The objective element requires the decision-maker to decide whether, in the light of that knowledge, the relevant person’s behaviour fell short of acceptable commercial standards.
* The question is whether the conduct falls short of the standards of acceptable commercial behaviour observed by reasonable and experienced persons in the particular area. It is whether the knowledge of the applicant was such that the decision to apply for registration would be regarded as in bad faith by persons adopting proper standards.
* It is difficult to see how a person who applies to register, in his own name, a mark he has previously recognised as the property of a potential overseas principal can be said to be acting in accordance with acceptable standards of commercial behaviour. Combining the mark with the applicant’s own name is no answer to that criticism.
* The registration of a trade mark is designed to enable bona fide proprietors to protect their proprietary rights without having to prove unfair trading.
* All the circumstances surrounding the application to register the mark are relevant.
* An act of bad faith cannot be cured by an action after the date of application.

1. It is clear from his Honour’s summary, extracted from the decision in *DC Comics v Cheqout Pty Ltd* (2013) 212 FCR 194, that while bad faith is a serious allegation, it does not require dishonesty. The test has two elements: a subjective element, being the knowledge of the relevant person, in this case Ms Taylor, at the time of making the application for registration; and an objective element requiring the decision-maker to determine whether, in light of that knowledge, the person’s behaviour fell short of acceptable commercial standards.
2. Even if I am to assume that there is a risk that I take an adverse view of Ms Taylor’s credibility, the observations made by Kenny J at [28] in *Fleming’s Nurseries* apply with equal force here. Namely, although effectively a sole trader, whether or not Ms Taylor will need to give evidence at a hearing on quantum is uncertain. That said, I accept the submission that Ms Taylor may need to give evidence and that, in those circumstances, if I was to make an adverse credit finding against her she may perceive that she is at some disadvantage at the subsequent hearing. However, whether that will occur cannot be predicted at this stage. As Kenny J noted the possibility of disadvantage to Ms Taylor if such circumstances arise is limited because, for the purposes of a hearing on quantum, it is likely that much will turn on documentary business records and expert accounting evidence and the like.
3. Notwithstanding that, I accept that the risk that I may take an adverse view of Ms Taylor’s credit at the liability stage is a factor which tells against splitting the hearing of liability from quantum. However, as I have already noted, that risk seems to me to be at the lower end.
4. That is particularly so having regard to the fact that if a finding of dishonesty is made against Ms Taylor in the context of s 62A of the TM Act, the matter is far less likely to proceed to a hearing on quantum. It is likely that the respondents will have made out their case based on s 62A of the TM Act and the Applicant’s Mark will be liable to be cancelled under s 88(1)(a) of the TM Act, subject to the Court exercising its discretion not to cancel it.
5. While it is difficult to extrapolate from one fact situation to another, in *Clipsal* at [197] Perram J found that the conduct of Mr Abdul Kader, the director of the first respondent in that case, was dishonest. Relevantly, at [49] his Honour said:

The credit of Mr Abdul Kader was one of the central themes during the trial. The applicants’ basic proposition was that Mr Abdul Kader had decided to choose the name CLIPSO precisely because of its similarity to CLIPSAL, and precisely because he wished to exploit the applicants’ reputation. If made good, that proposition would serve on two fronts. First, it would establish that the CLIPSO mark had been registered in bad faith, thereby providing a ground for its removal from the register. …

1. Ultimately, having found that the ground under s 62A of the TM Act was made out, Perram J found that the first respondent’s mark should be removed from the register. At [219] his Honour observed that the register should generally be in an accurate state and that it was not because of the “deliberately misleading conduct of Mr Abdul Kader”.
2. Whether there will be other witnesses that may give evidence at a hearing on liability and who will be placed in the position of perceived disadvantage identified by Ms Taylor in relation to her own evidence at a subsequent trial on quantum is not clear. Ms Taylor does not identify any other witness who would give evidence on her behalf and who would be in that position. However, she points to the prospect that, contrary to the opinion expressed by the respondents’ solicitor, Ms Gourley, Ms Hudson will need to give evidence. Whether that is so remains to be seen. Clearly Ms Gourley does not anticipate that to be the case at this stage.
3. Considering this factor overall, in my opinion the extent of overlap between witnesses at a hearing on liability and any subsequent hearing on quantum is not likely to be high. The only witness actually identified is Ms Taylor herself. As I have set out above it is less likely than not that Ms Taylor will be disadvantaged as she contends.

## Prospects of settlement

1. The final issue raised concerns the prospects of settlement. The respondents submit, based on Ms Gourley’s evidence, that if an order is made separating liability and quantum the prospects of settlement are significantly increased. Ms Taylor does not agree. She submits that she is highly unlikely to agree to settle the proceeding in the absence of a thorough understanding of the likely quantum of any amount she would recover, including on the basis of an account of profits. Based on Mr Silberstein’s evidence, she says that it is unrealistic to imagine that any mediation could proceed in the absence of such information. It is common ground that Ms Taylor is funded. However she submits that her interests and those of her funder, insofar as settlement is concerned, are aligned. Ms Taylor also submits that if she is to be put in a position to understand quantum to consider any settlement or mediation, the respondents will need properly to review and prepare materials on quantum anyway, reducing any time or cost saving.
2. It is in the interests of the parties to consider settlement at appropriate stages of a proceeding. To do so is in conformity with the overarching purpose set out in s 37M of the Federal Court Act. It may well be that Ms Taylor cannot sensibly engage in any mediation or settlement discussions without an understanding of issues relating to quantum. There are, no doubt, ways in which that requirement could be managed within the context of any mediation or settlement discussions that might take place, having regard to the overall nature of the proceeding. Further, if Ms Taylor is successful in establishing liability and defeating the cross claim, it seems to me, as the respondents submit, that there is an increased prospect that the parties may engage in more fruitful settlement discussions. If that occurs there would be no need for a further hearing on quantum.

# Conclusion

1. Weighing all of the factors considered above, in my opinion this is a case in which it is just and convenient to make an order pursuant to r 30.01 of the Rules in the terms sought by the respondents such that all issues of liability, entitlement to additional damages for alleged trade mark infringement and all claims for declaratory and injunctive relief sought in this proceeding will be heard and determined separately from, and prior to, all other issues and claims in the proceeding.
2. As Ms Taylor has been unsuccessful in her opposition to the application she should pay the respondents’ costs.
3. As requested by the parties the proceeding will be listed for case management hearing before me on 23 April 2020 at 9.30 am to enable orders to be made for the further preparation of the matter for hearing.

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| I certify that the preceding fifty-four (54) numbered paragraphs are a true copy of the Reasons for Judgment herein of the Honourable Justice Markovic. |

Associate:

Dated: 7 April 2020