Federal Court of Australia

Caffitaly System S.P.A. v One Collective Group Pty Ltd (No 2) [2021] FCAFC 164

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| File number: |  |
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| Judgment of: | **YATES, MOSHINSKY AND BURLEY JJ** |
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| Date of judgment: | 15 September 2021 |
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| Catchwords: | **PRACTICE AND PROCEDURE** – costs – appeal – where appellant unsuccessful in its infringement case and in its validity case regarding two out of three patents – where appellant successful in relation to the validity of one patent  |
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| Cases cited: | *BlueScope Steel Limited v Dongkuk Steel Mill Co Ltd (No 3)* [2020] FCA 113*Federal Treasury Enterprise (FKP) Sojuzplodoimport v Spirits International B.V. (No 2)* [2021] FCAFC 120*Fuchs Lubricants (Australasia) Pty Ltd v Quaker Chemical (Australasia) Pty Ltd (No 2)* [2021] FCAFC 114*Les Laboratoires Servier v Apotex Pty Ltd* (2016) 247 FCR 61*Sandvik Intellectual Property AB v Quarry Mining & Construction Equipment Pty Ltd (No 2)* [2017] FCAFC 158  |
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| Division: |  |
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| Registry: |  |
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| National Practice Area: |  |
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| Sub-area: |  |
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| Number of paragraphs: | 12 |
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| Date of last submissions: | 14 July 2021 |
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| Date of hearing: | Determined on the papers  |
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| Counsel for the Respondents: | C Dimitriadis S.C. with JS Cooke and AE McDonald |
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| Solicitor for the Respondents: | Barry Nilsson Lawyers |

ORDERS

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|  | NSD 755 of 2020 |
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| BETWEEN: | CAFFITALY SYSTEM S.P.A.Appellant |
| AND: | ONE COLLECTIVE GROUP PTY LTD (ACN 604 582 854)First RespondentTRENT KNOXSecond RespondentJULIA TINKThird Respondent |

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| order made by: | YATES, MOSHINSKY AND BURLEY JJ |
| DATE OF ORDER: | 15 SEPTEMBER 2021 |

THE COURT ORDERS THAT:

1. The appellant pay the respondents’ costs of the appeal, as agreed or assessed.
2. There be no variation to the costs orders made by the primary judge with respect to the proceeding at first instance.

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

REASONS FOR JUDGMENT

THE COURT:

1. These reasons deal with the issue of costs following the judgment of the Full Court in this matter: *Caffitaly System S.P.A. v One Collective Group Pty Ltd* [2021] FCAFC 118 (***Caffitaly (No 1)***). These reasons should be read together with *Caffitaly (No 1)*. We will adopt the same abbreviations as used in *Caffitaly (No 1)*.
2. By way of background, in the proceeding at first instance, Caffitaly claimed injunctive and pecuniary relief against the three respondents for patent infringement. Caffitaly is the patentee of the three patents in suit (the 627 patent, the 121 patent and the 388 patent), each of which relates to coffee capsule technology. Each of the respondents denied infringement. The first respondent also contended that each of the relevant claims was invalid and brought a cross-claim seeking orders for their revocation. The primary judge dismissed all of the infringement claims. His Honour also concluded that the relevant claims were invalid and should be revoked: *Caffitaly System S.p.A v One Collective Group Pty Ltd* [2020] FCA 803. In relation to costs, the primary judge ordered that Caffitaly pay the respondents’ costs of the proceeding.
3. Caffitaly appealed against the primary judge’s findings on infringement and claim validity. In *Caffitaly (No 1)*, we held that the appeal succeeded in relation to Ground 3, and in relation to Ground 4 in part, concerning the primary judge’s finding that the invention claimed in claims 1, 2, 9, 16, and 17 of the 627 patent lacked an inventive step. The appeal otherwise failed. In relation to costs, we made the following orders reflecting our provisional view as expressed in *Caffitaly (No 1)* at [210]:

3. Subject to Order 4, the appellant pay the costs of the appeal, as agreed or assessed.

4. If the appellant seeks a different costs order, it may, within seven days, file and serve a written submission of not more than two pages supporting the costs order it seeks, in which event the respondents may, within a further seven days, file and serve a responding written submission of not more than two pages, and the issue of costs will be determined on the papers.

1. Caffitaly has filed a written submission pursuant to paragraph 4 of that order, and the respondents have filed a written submission in response. The positions of the parties may be summarised as follows:
2. Caffitaly contends that the appropriate order is that Caffitaly pay in the order of 80% of the respondents’ costs of the trial and the appeal.
3. The respondents contend that Caffitaly should pay all of the respondents’ costs of the appeal, and the costs orders of the primary judge should not be disturbed.
4. The principles regarding costs are well established and were conveniently summarised in the judgment of the Full Court of this Court in *Sandvik Intellectual Property AB v Quarry Mining & Construction Equipment Pty Ltd (No 2)* [2017] FCAFC 158 at [9]-[11]:

9 Section 43(3)(e) of the *Federal Court of Australia Act 1976* (Cth) provides that an award of costs may be made in favour of, or against, a party whether or not that party is successful in the proceeding. The approach usually taken is that costs follow the outcome of an appeal: see *Firebird Global Master Fund II Ltd v Republic of Nauru (No 2)* (2015) 327 ALR 192 at [6] per French CJ, Kiefel, Nettle and Gordon JJ; see also *Les Laboratoires Servier v Apotex Pty Ltd* (2016) 247 FCR 61 at [303]; *Oshlack v Richmond River Council* (1998) 193 CLR 72 at [66]-[68].

10 In *Queensland North Australia Pty Ltd v Takeovers Panel (No 2)* (2015) 236 FCR 370, Dowsett, Middleton and Gilmour JJ, after referring to *Ruddock v Vadarlis (No 2)* (2001) 115 FCR 229 and *State of Victoria v Sportsbet Pty Ltd (No 2)* [2012] FCAFC 174, said at [11] that these decisions treat the success or failure of the relevant party as being the starting point in consideration of the question of costs, but contemplate at least three distinct categories of situation in which a successful party might be deprived of costs, or even ordered to pay the costs of the other side. These were identified as follows:

One such category is where the applicant has been only partially successful in that it has not obtained all of the relief sought. The second category is where a party has succeeded in obtaining the relief sought, but has not succeeded on all bases (factual or legal) upon which it sought such relief. Of course, it is possible that a particular outcome will fall into both categories. A third category involves consideration of the successful party’s conduct of the case.

11 After referring to the decision of Finkelstein and Gordon JJ in *Bowen Investments Pty Ltd v Tabcorp Holdings Ltd (No 2)* [2008] FCAFC 107, Dowsett, Middleton and Gilmour JJ in *Queensland North Australia* then said at [18]:

[Section 43 of the *Federal Court of Australia Act*] does not mention costs following the event. In *Ruddock*, *Bowen Investments* and *Sportsbet*, the Court proceeded on the basis that ordinarily, the successful party may reasonably expect to receive its costs, whether that outcome be described as costs following the “event” or otherwise. The question of costs is within the Court’s discretion. As we have said, relevant factors include the extent of a party’s success, the extent of its success or failure on individual issues and its conduct of the proceedings.

1. The above passage was approved by the Full Court of this Court in *Fuchs Lubricants (Australasia) Pty Ltd v Quaker Chemical (Australasia) Pty Ltd (No 2)* [2021] FCAFC 114 at [15].
2. In support of the orders it seeks, Caffitaly submits that the relevant context is that Caffitaly’s appeal succeeded in reversing the primary judge’s revocation of the 627 patent on the basis of lack of inventive step.
3. Caffitaly submits, in summary:
4. The ordinary rule is that costs follow the event: *Federal Treasury Enterprise (FKP) Sojuzplodoimport v Spirits International B.V. (No 2)* [2021] FCAFC 120. The relevant event in this case was the respondents’ cross-claim for revocation of the 627 patent. The respondents advanced four grounds of invalidity for the 627 patent (lack of novelty, lack of inventive step, fair basis and lack of utility). Each ground failed. To hold that the respondents should not only be relieved of paying Caffitaly’s costs of the respondents’ claims that failed, but also have their costs of such claims, would be to depart significantly from the ordinary rule.
5. This Court has taken the approach in patent litigation that costs apportionment reflecting each party’s relative success and failure on the issues litigated should be the norm rather than the exception: see *Les Laboratoires Servier v Apotex Pty Ltd* (2016) 247 FCR 61 at [300]; *BlueScope Steel Limited v Dongkuk Steel Mill Co Ltd (No 3)* [2020] FCA 113 at [18].
6. Having regard to the circumstances of this case, although application of the usual rule would justify it, Caffitaly does not submit that there should be a costs order in its favour on the 627 patent cross-claim as a whole. Rather, it proposes that its success on this issue be reflected in a proportionate reduction of the respondents’ overall costs as taxed or agreed, both in respect of the trial and the appeal, having regard in particular to the resource-heavy lack of inventive step case pursued by the respondents on the 627 patent cross-claim.
7. Caffitaly’s success on this point is not without practical utility, including between these parties: the 627 patent being valid, competitors including the respondents are not free to use it, and are forced to create different products by designing around it, as the respondents have done here.
8. While it is true that Caffitaly succeeded in relation to one issue raised by the appeal, namely the inventive step issue in relation to the 627 patent, that issue was of no or only limited significance to the respondents in circumstances where the finding that the respondents had not infringed the patent was upheld; further, the respondents succeeded on all other issues raised by the appeal. The issues in respect of which the respondents succeeded were as follows:
9. In relation to the 627 patent: Grounds 1 and 2, which challenged the correctness of the primary judge’s findings as to the meaning of “embossings” as used in claims 1 and 2, and the correctness of the finding that the version 5 capsule did not infringe the 627 patent (dealt with at [48]-[76] of *Caffitaly (No 1)*).
10. In relation to the 121 patent:
	1. Grounds 5(a) and (b), which challenged the primary judge’s construction of the patent (dealt with at [138]-[143] of *Caffitaly (No 1)*).
	2. Grounds 5(c) and (d) and 6, which related to infringement (dealt with at [144] of *Caffitaly (No 1)*).
	3. Grounds 7 to 9, which challenged the primary judge’s conclusion that the relevant claims lacked an inventive step (dealt with at [145]-[159] of *Caffitaly (No 1)*).
11. In relation to the 388 patent: Grounds 10 and 11, which challenged the primary judge’s conclusion that certain claims were invalid on the ground of insufficiency (dealt with at [188]-[208] of *Caffitaly (No 1)*).
12. In the circumstances of this case, as outlined above, we consider it appropriate that Caffitaly pay all of the costs of the appeal notwithstanding its success in relation to one issue.
13. As for the costs of the proceeding at first instance, for similar reasons, we do not consider it appropriate to vary the costs orders made by the primary judge. Although Caffitaly has succeeded in relation to the validity of the relevant claims of the 627 patent, this issue was raised defensively by the respondents. Further, as noted above, Caffitaly’s success on this issue is of no or only limited significance for the respondents given their success in relation to infringement. In relation to the other patents, the conclusions of the primary judge have not been disturbed on appeal. In light of these conclusions, it is unnecessary for us to consider the submissions made by the respondents regarding Caffitaly’s conduct of the case at first instance insofar as it related to the 627 patent.
14. We will therefore make orders that:
15. Caffitaly pay the respondents’ costs of the appeal, as agreed or assessed.
16. There be no variation to the costs orders made by the primary judge with respect to the proceeding at first instance.

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| I certify that the preceding twelve (12) numbered paragraphs are a true copy of the Reasons for Judgment of the Honourable Justices Yates, Moshinsky and Burley. |

Associate:

Dated: 15 September 2021