

City Beach's Folly - Taking a Substantial Part of Seafolly's Artwork

Case note: *Seafolly Pty Limited v Fewstone Pty Ltd* [2014] FCA 321 (*Seafolly v City Beach*)

Amy Campbell, Senior Associate, HWL Ebsworth, revisits the *Seafolly* decision for our special fashion edition.

Introduction

Seafolly Pty Limited (**Seafolly**), a well-known Australian designer, manufacturer, wholesaler and retailer of swimwear and beachwear, instituted proceedings against Fewstone Pty Ltd trading as City Beach Australia (**City Beach**), also a designer, manufacturer and well-known retailer of swimwear and beachwear. Seafolly claimed that City Beach was for infringing Seafolly's copyright in three artistic works from its 2010 summer range.

Background

Seafolly engaged design company Longina Phillips Designs Pty Ltd (**Longina**) to create artwork for its 2010 summer range. Seafolly's instructions included photos of 1950s swimsuit designs for "inspiration and direction." Longina's designs used "creative skills to paint roses inspired by the photographs". Through a deed of assignment, Seafolly purchased from Longina the artwork set out in column 1 in the table below. Fabrics printed with the artwork were subsequently used to manufacture a number of different swimwear garments for the 2010 summer range.

City Beach also engaged a design company, 2Chillies Pty Ltd (**2Chillies**), to assist in designing prints and shapes for garments to be sold by City Beach. Under its engagement with 2Chillies for its 2011 range, City Beach sent photographs of Seafolly prints as "references"¹, "inspiration"² and "direction"³. In City Beach's instructions to 2Chillies, it referred to one bikini design as a "Seafolly knock off"⁴ and rejected designs created

by 2Chillies intended to remedy the similarities between the Seafolly artwork and the designs for City Beach.⁵ One 2Chillies witness gave evidence that, "*we did try to make it more different, but it did keep getting changed close back to the Seafolly one ... [we were trying to make it] more*

original."⁶ City Beach also sent a one-piece Seafolly Seniorita swimsuit (see the third row in column 1 of the table below) to a manufacturer in China to be "as per the" original.⁷

The examples of the artwork at issue are set out in the table below:

"Seafolly Artwork"	"City Beach Prints"
<p>English Rose artwork</p> 	<p>Rosette print</p> 
<p>Covent Garden artwork</p> 	<p>Sienna print</p> 
<p>Seniorita artwork</p> 	<p>Richelle print</p> 

1 *Seafolly v City Beach* at [108], [110].
2 *Seafolly v City Beach* at [97], [101], [117].
3 *Seafolly v City Beach* at [115].
4 *Seafolly v City Beach* at [154].
5 *Seafolly v City Beach* at [170].
6 *Seafolly v City Beach* at [139].
7 *Seafolly v City Beach* at [206]-[207].

Seafolly sold:

- 63,267 units of the English Rose garments (comprising 48,750 units sold wholesale, 10,342 units sold wholesale overseas, 2,755 units sold retail from its concept stores and 1,420 units sold retail from its direct factory outlet).
- 30,059 units of the Covent Garden garments (comprising 21,123 units sold wholesale, 6,430 units sold wholesale overseas, 1,025 units sold retail from its concept stores and 1,481 units sold retail from its direct factory outlet).
- 3,916 units of the Senorita garments (comprising 3,123 units sold wholesale in Australia, 101 units sold wholesale overseas, 16 units sold retail from its concept stores and 676 units sold retail from its direct factory outlet stores).

City Beach sold:

- 8,155 units of the Rosette garments;
- 2,388 units of Sienna garments; and
- 749 units of the Richelle garments.

Key issues at trial

Seafolly made the following submissions:

- a substantial part of each of its copyright works was reproduced without its licence in a material form in the corresponding print or embroidery used to manufacture the City Beach garments, contrary to sections 14, 31(1)(b)(i) and 36 of the *Copyright Act 1968* (Cth) (**Copyright Act**);⁸

- City Beach's reproduction of a substantial part of each of the Seafolly Artworks was not the result of independent creation but was due to copying of those works from Seafolly garments, which City Beach conceded it had purchased and used to instruct its designers;⁹ and
- City Beach infringed Seafolly's copyright pursuant to ss 14, 37 and 38 of the Copyright Act by directing the manufacture in China of garments imprinted with or incorporating the Seafolly Artworks, which City Beach imported and sold in Australia with the actual or constructive knowledge that the making of the article would have constituted an infringement of Seafolly's copyright had it been made in Australia by the importer.¹⁰

Seafolly outlined in its submissions that there were 12 features of the English Rose and Covent Garden artworks reproduced in the respective City Beach prints, including the use of different sized flowers and the use of impressionistic and non-pictorial flowers. The Senorita artwork comprised 5 features that were reproduced.¹¹ Seafolly submitted that these reproductions amounted to a substantial part of the original Seafolly Artworks.

City Beach did not deny that the Seafolly Artworks constituted an artistic work within the meaning of s 10(a) of the Copyright Act. It also did not deny the subsistence, or Seafolly's ownership, of the copyright of the English Rose and Covent Garden artworks.¹² It did, however, contend that the Senorita artwork was not original

in that it did not originate with Seafolly's employees or designers and was a common place design. If that submission failed and it was found that copyright subsisted in the Senorita artwork, City Beach conceded that Seafolly would also own the copyright in this work.¹³ City Beach also admitted that it manufactured, imported for sale, sold or, by way of trade, offered for sale or exhibited, the garments bearing the City Beach prints, and authorised that conduct.¹⁴

Nevertheless, City Beach denied that it had infringed Seafolly's copyright and submitted that:

- there was not "sufficient objective similarity" between the Seafolly Artworks and the City Beach Prints;¹⁵
- any parts taken from the Seafolly Artworks were not original so were not substantial or protected. It submitted that Seafolly Artworks:

"were, in themselves, unoriginal, commonplace and derived from the "prior art" which Seafolly itself consulted and used for inspiration in accordance with the routine practice of the fashion industry";¹⁶

In the alternative, City Beach submitted that it had, at most, taken the unprotected idea or underlying concept of the Seafolly Artworks but had not taken their form of expression, because:

- the exclusive rights of the owner of the copyright in an artistic work do not (in contrast to copyright in literary, dramatic and musical works) include the right of adaptation so an artistic work requires an exact

⁸ *Seafolly v City Beach* at [3].

⁹ *Seafolly v City Beach* at [4].

¹⁰ *Seafolly v City Beach* at [5].

¹¹ *Seafolly v City Beach* at [15].

¹² *Seafolly v City Beach* at [222].

¹³ *Seafolly v City Beach* at [18].

¹⁴ *Seafolly v City Beach* at [19].

¹⁵ *Seafolly v City Beach* at [20].

¹⁶ *Seafolly v City Beach* at [21].

or faithful reproduction of a substantial part of an original artistic work to infringe copyright (**Exact Reproduction argument**);¹⁷ and

- in respect of the *Senorita* artwork, the smocking embroidery used in the garment was a “corresponding design” within the meaning of s 74 of the Copyright Act.¹⁸

City Beach ultimately denied that it ought to have reasonably known that Seafolly was the owner of copyright in the *Seafolly Artworks* and that City Beach’s acts of commercial exploitation of its garments, if done in Australia, would have been an infringement of Seafolly’s copyright in the *Seafolly Artworks*.¹⁹

Decision at trial

Justice Dodds-Streeton considered the copyright protection for “adaptations” of artistic works, what constitutes a “substantial part” of an original work and the application of the “design defence” as it related to the *Senorita* artwork.

In making findings in respect of each of these points, Dodds-Streeton J concluded that:

- City Beach infringed Seafolly’s copyright in the *English Rose* artwork because the *Rosette* print reproduced in a material form a substantial part of the *English Rose* artwork and there was an objective similarity between the two works.
- City Beach infringed Seafolly’s copyright in the *Covent Garden* artwork because the *Sienna* print

reproduced in a material form a substantial part of the *Covent Garden* artwork and there was an objective similarity between the two works.

- Seafolly’s *Senorita* artwork constituted an original artistic work which was the product of labour, skill and effort, together with a process of trial and error, on the part of the Seafolly designers, which was reflected in the material expression of the work.²⁰
- City Beach infringed Seafolly’s copyright in the *Senorita* artwork because the *Richelle* print reproduced in a material form a substantial part of the *Senorita* artwork and the two works were “manifestly similar.”²¹

Her Honour was satisfied that on the evidence that City Beach had infringed Seafolly’s copyright directly pursuant to ss 31(1)(b)(i) and indirectly by importation and sale pursuant to ss 36, 37 and 38 of the Copyright Act.

Her Honour rejected City Beach’s arguments raised in the relation to the lack of originality - copyright does not require “originality” in the form of artistic merit, complexity, excellence, distinction,²² novelty or inventiveness²³ but “originality” instead forms ‘a pre-condition of its subsistence and is also relevant to infringement, as it informs the concept of a “substantial part”’²⁴.

Her Honour’s approach to reaching these conclusions was adopted from *Milpurrruru v Indofurn Pty Ltd* (1994) 54 FCR 240; 130 ALR 659

(*Milpurrruru*) - the first question is whether there has been copying, and then secondly whether the copying is substantial. Justice Dodds-Streeton’s answers to these questions are considered below.

Adaptations

Her Honour rejected the “exact reproduction” argument posited by City Beach, stating that it was contrary to well-established principles and was made without reference to specific authority.²⁵ She found that while “adaptation” bears very particularised meanings in the Copyright Act which are not applicable to artistic works, “*it does not follow that because the exclusive rights of the owner of copyright in an artistic work do not include the right to make an adaptation, variations or modifications falling short of an exact or very close copy cannot infringe.*”²⁶ Her Honour found that if copyright in artistic works was limited to exact or faithful reproduction the scope and value of the copyright in such works would be “unduly narrow”.²⁷

Her Honour undertook the “relevant inquiry” in respect of artistic works: “*not whether the disputed [alleged reproductions] are an adaptation but whether [they] reproduce a substantial part of one of the artworks.*”²⁸

Substantial part

Her Honour acknowledged that ‘while substantiality is qualitative rather than quantitative, the reproduction of a very large part of the copyright work might take on “qualitative mantle”. A quantitatively small part may

¹⁷ *Seafolly v City Beach* at [23], [224].

¹⁸ *Seafolly v City Beach* at [24].

¹⁹ *Seafolly v City Beach* at [25].

²⁰ *Seafolly v City Beach* at [415].

²¹ *Seafolly v City Beach* at [417].

²² *Seafolly v City Beach* at [237].

²³ *Seafolly v City Beach* at [238].

²⁴ *Seafolly v City Beach* at [238].

²⁵ *Seafolly v City Beach* at [225].

²⁶ *Seafolly v City Beach* at [228].

²⁷ *Seafolly v City Beach* at [229].

²⁸ *Seafolly v City Beach* at [229] citing *Milpurrruru* at [259].

amount to a substantial part of the copyright work if it constitutes a material or vital element, which is of value or importance to the copyright work as a whole.²⁹

The factors relevant to distinguishing a substantial part of copyright work from a merely insubstantial part or from an idea or concept shift according to the subject matter in question but, her Honour observed that originality is consistently recognised as important to substantiality. The High Court in *IceTV Pty Ltd v Nine Network Australia Pty Ltd* (2009) 239 CLR 458, [2009] HCA 14 emphasised that if the originality of what was taken did not manifest itself in a form of expression, it would not constitute a substantial part of the work.³⁰ By reference to Australian and international cases, her Honour also considered the dichotomy between idea and form of expression and repeated the established principle that it is not necessary for infringing work to look like the original copyright work but requires a consideration of that which is essential or material, identified by the elements that made the copyright work an original artistic work.³¹

Consistent with these principles, her Honour noted that Seafolly's allegations were that the City Beach Prints reproduced in a material form a substantial part of the corresponding Seafolly Artworks which, as discussed above, can be a feature or combination of features abstracted from the work.³² To determine whether this occurred, it was also necessary to determine whether the City Beach Prints were derived or copied from the corresponding Seafolly Artwork and whether there was objective similarity between the respective two works.

Experts provided evidence of the similarities – which included their background and motifs, the motif style, the scale of the motifs, the way in which the motifs were rendered and the balance between the motifs and base colour. For the Senorita artwork and Richelle print, regard was had to the diamond patterns and diagonal lines of the smocking embroidery. With consideration to the elements of the designs, her Honour found that elements and features and combination of each taken from the Seafolly Artwork cumulatively comprised a substantial part of each work in the relevant qualitative sense and they also comprised a quantitatively significant part of the work.

Based on City Beach's conduct of providing images and samples of garments with the Seafolly Artwork to 2Chillies and its various instructions to 2Chillies and a manufacturer in China, including City Beach's disregard of efforts made by 2Chillies to reduce similarities, her Honour found that the City Beach's use of the Seafolly work was deliberate and the City Beach Prints were clearly derived or copied from the corresponding Seafolly Artwork.

Design defence

City Beach alleged that the Senorita design applied to the fabric used to make the Senorita garments was a "corresponding design" for the purposes of s 74(1) of the Copyright Act and so reproduction of that work did not infringe Seafolly's copyright in it. City Beach further submitted that the design and the fabric never existed independently so was argued to be "embodied" in the product.³³

Seafolly rejected City Beach's defence and submitted that:

- (a) the Senorita artwork was two dimensional, showing the placement of embroidery and depicting features of pattern and ornamentation, rather than visual features of shape and configuration; and
- (b) the Senorita artwork was not "embodied" in the fabric used to manufacture the Senorita garments. Rather, the embroidery was applied to the garments.³⁴

Her Honour considered the complex legal and policy landscape that informed the design and copyright overlap with regard to previous legislation, legal scholarship and *Polo/Lauren Co LP v Ziliani Holdings Pty Ltd* [2008] FCAFC 195. She concluded that the relevant law indicates that:

...it is the features of shape or configuration of an artwork (not a label on which the artwork is reproduced) that must be relevantly embodied in a product, which will occur when the product (in the present case, a garment) is made in the shape or configuration of the artwork.

*Unless that requirement is satisfied, the defence based on a corresponding design will not be made out even if the design is placed on or in the article in a three dimensional way, as embodiment and three dimensionality are both necessary conditions.*³⁵

On this assessment, her Honour ultimately found that the Senorita garments were not made in the shape or configuration of the Senorita artwork so the Senorita diamond pattern embroidery design was not "embodied in" the garments. The Senorita artwork was instead

²⁹ *Seafolly v City Beach* at [242].

³⁰ *Seafolly v City Beach* at [249].

³¹ *Seafolly v City Beach* at [262], [262].

³² *Seafolly v City Beach* at [287].

³³ *Seafolly v City Beach* at [430].

³⁴ *Seafolly v City Beach* at [431].

³⁵ *Seafolly v City Beach* at [470]-[471].

considered a constituent element, not a “corresponding design”. City Beach’s defence therefore failed.

Damages

Seafolly sought remedies including compensatory damages (\$240,999.18), damages for damage to its reputation (\$70,000), additional damages (\$300,000), conversion damages (\$211,753.34), declarations, injunctions and orders for delivery up all remaining stock of the respondent’s infringing garments.

The award of damages for infringement of intellectual property rights is intended “to compensate for loss or injury” suffered as a result of the respondent’s infringement, rather than to punish the defendant.³⁶ Nevertheless, the Full Federal Court has observed that such damages should be assessed liberally.³⁷

To determine the appropriate damages, her Honour applied the five steps established in *Norm Engineering v Digga* and endorsed in *Elwood v Cotton*, being to:

- (1) examine the number of sales made by the Respondent;
- (2) assume that the Respondent was trying to capture sales from the Applicant, the market leader;
- (3) assume that the number of sales made by the Respondent is equal to the number of sales lost by the Applicant;
- (4) discount the number in (3) to reflect the fact that not all sales made by the Respondent can be considered sales lost by the Applicant; and
- (5) apply any further discount necessary in the circumstances of the case

Based on this assessment and the evidence provided by each party in respect of sales and prices, and the

nature of the market, parties, supply chain and the goods sold, the court ordered that City Beach pay Seafolly damages in the sum of \$250,333.06, broken down as follows:

- \$80,333.06 in damages for lost profit, at a 75% discount due to the different target markets and price point of the garments;
- \$20,000 in reputational damage in consideration of a modest impact on Seafolly’s reputation;
- \$150,000 in additional damages due to City Beach’s continued sale of infringing garments after notice from Seafolly, the evasiveness of some of City Beach’s lay witnesses and the benefit derived by City Beach from the sales of the infringing garments; and
- nil for conversion damages, since the court considered that quantum of other damages would sufficiently compensate Seafolly.

Comment

Adaptation of artistic works – reproduction of a substantial part

Seafolly v City Beach clarified that the rights of owners of artistic works will be infringed when a substantial part of those works is reproduced – the reproduction does not need to be exact or faithful. The Federal Court looked beyond the “look and feel” and obvious visual similarities and differences of the relevant artworks to make a qualitative assessment about the value and extent of what had been taken from the original work. City Beach’s conduct provides a reminder that inspiration must not lead to imitation.

Originality

The case also serves to distinguish between originality in the context of authorship and originality in the context of the subsistence of copyright. Despite the relevance of Meryl Streep’s piercing and

iconic assessment in the *Devil Wear Prada* (“Florals? For spring? Ground-breaking”), Justice Dodds-Streton was satisfied that, based on the skills, labour and work in the creation of the Seafolly Artworks, these works were sufficiently original and not commonplace. Her Honour was also satisfied that City Beach had taken a substantial part of the features that made the Seafolly Artworks original.

Damages

This case also provides a useful example of how the Federal Court will approach the calculation of damages for copyright infringement under the various heads of damage for which a copyright infringer may be liable. The quantum of damages in this case might be expected also to act as a deterrent within the fashion industry in respect of similar infringing conduct.

³⁶ See authorities cited in *Seafolly v City Beach* at [506]

³⁷ *Seafolly v City Beach* at [506] citing *Bailey v Namol Pty Limited* (1994) 53 FCR 102 at [111].