Cost reductions in the federal court

By Phillipa Alexander

The Federal Court of Australia has recently considered the application of Order 62 Rule 36A of the *Federal Court Rules*. Subrule 36A(1) provides that, where a party is awarded judgment for less than $100,000 on a claim (not including a cross-claim) for a money sum or damages, any costs ordered to be paid, including disbursements, will be reduced by one-third of the amount otherwise allowable under this Order, unless the court or a judge otherwise orders.

Independently from subrule 36A(1),[1] subrule 36A(2) provides – that if the court or a judge is of the opinion that a proceeding (including a cross-claim for a money sum or damages) brought in the Federal Court could more suitably have been brought in another court or in a tribunal and so declares – any costs to be paid, including disbursements, will be reduced by one-third of the amount otherwise allowable under Order 62.[2]

In *Nokia Corporation v Liu*,[3] nominal damages of only $10 were obtained by the applicant for infringement by the respondent of certain 'Nokia' trademarks under s125 of the *Trade Marks Act 1995*. The respondent had sold mobile phone products carrying a Nokia trademark on Ebay, which had not been made by or on behalf of the applicant.

The applicant sought an order avoiding the operation of O62 r36A of the *Federal Court Rules*, relying on *Sony Computer Entertainment Australia Pty Ltd v Stirling*.[4] In *Sony*, the court held that, as the principal relief sought was injunctive relief, and it was appropriate to bring a claim for infringement of trademarks in the Federal Court, the rule should not apply. Similarly, in *Futuretronics.com.au Pty Ltd v Graphix Labels Pty Ltd (No. 3)*,[5] the court ordered that rule 36A(1) did not apply, on the basis that copyright litigation is appropriately brought in the Federal Court, even where the monetary claim is less than $100,000.

Jessup J, in *Nokia*, considered that where damages of less than $100,000 are recovered, the party with the benefit of the costs order must convince the court that O62 r36A(1) should not apply on its terms. In contrast, subrule (2) operates with respect to all proceedings, even where the successful party has recovered damages of more than $100,000. In the latter case, Jessup J considered that it was for the party seeking to invoke the application of subrule (2) to persuade the court that the proceeding 'could more suitably have been brought in another court or in a tribunal'.[6]

Jessup J considered that the absence of another court in which the proceedings could have been brought may be relevant to the exercise of the court's discretion under subrule (1), in that the Federal Court may have been the only or most suitable court for the proceedings. However, his Honour also recognised that, as the *prima facie* policy behind rule 36A(1) was not the jurisdictional issue, the rule could 'apply even in a situation in which no other court, and no tribunal, might have entertained the claims in question'.[7]

Two distinct, but related, principles underlying the rule were identified by Finkelstein J;[8] first, that is it essential to keep down the costs of a small claim, so as not to exceed the quantum of the claim. The second is to discourage plaintiffs from prosecuting small claims to judgment, especially where the costs will significantly exceed the amount of the claim.

Jessup J held that, even though the *Nokia* proceedings had appropriately been brought in the Federal Court, it remained appropriate to look to other factors as a basis on which to exclude the operation of the subrule. The fact that remedies in addition to the claim for damages are sought does not in itself render rule 36A(1) inoperative.[9] However, it may be unjust for the rule to operate in circumstances where the damages claim is substantially overshadowed by the more significant, non-monetary claims.[10] Jessup J held that this was not the case in *Nokia*, the respondent having consented to the non-monetary relief sought at an early stage of the proceedings. As the matter was also relatively uncomplicated, his Honour was not prepared to make an order excluding the operation of O62 r36A(1).

Where damages may not exceed $100,000, for the purpose of disclosure to clients of the 'range of costs that may be recovered if the client is successful',[11] it may be necessary to consider the effect of O62 r36A(1). Similarly, in settlement negotiations, the potential operation of the rule may be an important factor to take into account. ■

Notes: **1** *McCormick v Riverwood International (Australia) Pty Ltd* [2000] FCA 32, [22] and *Axe Australasia Pty Ltd v Australume Pty Ltd (No 2)* [2006] FCA 844, [3]. **2** The rule does not apply to a proceeding under the *Admiralty Act 1988*: FCR 36A(3). **3** *Nokia Corporation v Liu* [2009] FCA 20 (21 January 2009). **4** *Sony Computer Entertainment Australia Pty Ltd v Stirling* [2001] FCA 1852 (5 December 2001). **5** *Futuretronics.com.au Pty Ltd v Graphix Labels Pty Ltd (No 3)* [2008] FCA 896. **6** *Nokia Corporation v Liu* [2009] FCA 20 (21 January 2009) at [27]. **7** *Ibid* at [29]. **8** *Axe Australasia Pty Ltd v Australume Pty Ltd (No 2)* [2006] FCA 844, [4]-[5]. **9** *Shahid v Australasian College of Dermatologists (No 2)* [2008] FCAFC 98 at [14]. **10** *Nokia Corporation v Liu* [2009] FCA 20 (21 January 2009) at [32]. **11** In NSW, see *Legal Profession Act*, s309(1)(f)(i).

Phillipa Alexander *is a specialist in legal costs with Costs Partners.* **PHONE** *(02) 9006 1033*
EMAIL *Phillipa@costspartners.com.au.*