
Liability of directors as joint tortfeasors in intellectual property matters

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*A body of law has developed that allows applicants seeking to enforce statutory intellectual property rights to obtain a judgment against both the company and its directors in some circumstances because those directors are seen as “joint tortfeasors”. The application of that doctrine, which involves borrowing a body of law from the common law, is at odds with the idea that a company is a separate legal entity, and only acts through its directors and employees. Recently, in *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499; 87 IPR 1, the Full Court of the Federal Court attempted to resolve this difficulty, and resolve the myriad of different tests for liability of directors that had emerged. The Full Court gave support to a stricter test that emphasised the idea that directors will not ordinarily be individually liable where they act in good faith in the discharge of their duties to the company. However, all three members of the Full Court gave different reasons, and significant doubt remains as to the proper test, particularly in scenarios that are factually distinct from the one that the Full Court was dealing with. This article examines the history of the application of joint tortfeasorship to directors, and examines some of the problems with the application of joint tortfeasorship doctrines in this context. That review suggests an unsound jurisprudential basis for the application of the doctrine of joint tortfeasorship, and provides a proper basis for questioning whether a director should ever be liable as a “joint tortfeasor” for his or her company’s infringement of statutory intellectual property rights.*

INTRODUCTION

Where a company has infringed an intellectual property right, applicants are often anxious to obtain a judgment against individual directors as well as the company. Some intellectual property statutes impose liability for authorising the conduct (such as direct infringement in copyright) but many do not. It is sometimes said that a director of a company may be liable as a joint tortfeasor because their company infringes statutory intellectual property rights, because infringement of statutory intellectual property rights is a “tort”.

The applicability of the joint tortfeasor concept to directors acting on behalf of companies is problematic. This is demonstrated in the varying articulations of the test for how closely concerned the director has to be with the infringing activities of the company. The question of personal liability of a director is a vexed one on which views differ.¹ The Full Court of the Federal Court has recently attempted to resolve the proper test,² but the issue remains unsettled.

The starting point is to analyse the jurisprudence behind the joint tortfeasor doctrine. Then it is necessary to look at the application of that doctrine to directors of companies that are liable in tort, which involves a tension with the notion that a company is a separate legal entity. The next issue is the application of tort concepts to purely statutory liabilities as a way to make directors liable where parliament has not so provided. Then other conceptual difficulties need to be analysed. Against that background, this article examines whether the application of the common law doctrine is sound in principle, and what the test for liability should be.

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¹ *Pioneer Electronics Australia Pty Ltd v Lee* (2001) 108 FCR 216 at 233; 51 IPR 291 (Sundberg J); *Oakley Inc v Oslu Import & Export Pty Ltd* [2001] FCA 385.

² *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499; 87 IPR 1.

TEST FOR JOINT LIABILITY IN TORT

To be joint tortfeasors at common law, two or more people must act in concert with a view to a common end. The test comes from *The Koursk* [1924] P 140 at 152; [1924] All ER Rep 168 (Banks LJ),³ which dealt with a collision between three ships.

In *Thompson v Australian Capital Television Pty Ltd* (1996) 186 CLR 574, the majority of the High Court (Brennan CJ, Dawson and Toohey JJ) applied the test in *The Koursk*, namely that there “must be a concurrence in the act or acts causing damage, not merely a coincidence of separate acts which by their joining effect cause damage”.⁴ All five members of the High Court⁵ placed emphasis on the need for the joint tortfeasors to act together, in concert, to achieve a common end. That decision has never been overruled.

There is no doubt that the necessary common endeavour has sometimes been stretched. In *Brooke v Bool* [1928] 2 KB 578, the landlord and lodger were inspecting a gas leak using a naked flame. The lodger climbed up to inspect an area that the landlord was unable to reach, and an explosion occurred. The lodger was found to be engaging in a common endeavour, even though inspecting the gas leak was not his responsibility and he merely offered to assist. The enterprise, Salter J held, was a joint one and was the cause of the explosion.

What is important about the decision is that it was an early example that was not the typical case of two acknowledged tortfeasors, but where one person was clearly liable, and another is held to be liable as well. This was later described as a “bold step”⁶ and paved the way for liability of directors.

APPLICATION OF THE DOCTRINE TO DIRECTORS

In *Rainham Chemical Works Ltd v Belvedere Fish Guano Co Ltd* [1921] 2 AC 465 at 475-476, Lord Buckmaster noted that directors will not normally be liable for the company’s torts merely by reason of their office, but may be liable where those in control expressly direct⁷ that a wrong thing be done. The directors in that matter were not held to be liable as joint tortfeasors.⁸ Lord Buckmaster was critical of the finding in the court below that it was possible to look behind the company.

However, early limits were placed on the liability of directors in tort. In *O’Brien v Dawson* (1942) 66 CLR 18 at 32, Starke J said:

The company, if it were guilty of a breach of its contracts in this case, acted through its director the respondent Doyle, but it is neither “law nor sense” to say that Doyle in exercising his functions as a director of the company combined with it to do any unlawful act or become a joint tortfeasor.

This notion is often referred to as the rule in *Said v Butt* [1920] 3 KB 497.⁹ Strictly speaking, the rule provides that a director will not be liable in tort for procuring the company to breach a contract with a third party. However, while the rule in *Said v Butt* has received recent attention in intellectual property cases dealing with liability of directors,¹⁰ the pure tort cases that considered the liability of directors as joint tortfeasors have given it surprisingly little attention.

³ Although his Honour thought it unwise to attempt to define the necessary degree of connection between the torts.

⁴ *Louis Vuitton Malletier v Toea* (2006) 156 FCR 158.

⁵ Gaudron J generally agreeing with Gummow J, but adding some additional reasons.

⁶ *Unilever plc v Gillette (UK) Ltd* [1989] RPC 583 at 603 per Mustill LJ.

⁷ Aitkin LJ attempted to water down the requirement for an *express* direction in *Performing Right Society v Ciry! Theatrical Syndicate* [1924] 1 KB 1.

⁸ However, they were liable because they were occupiers of the premises. Lord Renbury agreed with Lord Buckmaster’s speech, but Lord Sumner, Lord Carson and Lord Parmoor expressed no general statement on the issue, and Lord Carson and Lord Parmoor stressed the importance of distinguishing between a company and its directors.

⁹ The basis for the rule was doubted by Dillon LJ in *Welsh Development Agency v Export Finance Co Ltd* [1992] BCLC 148 at 173, but his Lordship felt bound to apply it.

¹⁰ *Root Quality Pty Ltd v Root Control Technologies* (2000) 117 ALR 231; 49 IPR 225; *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499; 87 IPR 1.

Fairline Shipping Corp v Adamson [1975] QB 180; [1974] 2 All ER 967 is an interesting example of a director being liable because he personally did the tortious act. In that matter, the plaintiff had a contract with a company for the storage of goods. The negligent storage conditions caused the goods to perish. After the company went into liquidation, the owner of the goods sued the director, who was found liable in conversion. A key feature of the case was that the director sent a letter confirming the contractual arrangements, and the invoice, not on the company's letterhead but on his own personal notepaper. The invoice was also drafted on the defendant's personal notepaper, seeking to have payment sent to his personal address. The defendant stored the goods in a separate storage area that he owned and not in the storage area owned by the company. Kerr J held that the director owed a duty of care to the owner of the goods personally.¹¹

In *Wah Tat Bank Ltd v Chan Cheng Kum* [1975] AC 507, the Judicial Committee of the Privy Council dealt with an allegation that the director was jointly liable with the company for the tort for conversion.¹² Lord Salmon noted that merely being the chairman and managing director did not make the individual liable, but that he may be personally liable in tort if he directs the commission of the tort.¹³ However, the advice of the Board in that case was that the managing director procured or directed the conversion, and was liable.

Trevor Ivory Ltd v Anderson [1992] 2 NZLR 517 is an interesting example of a non-intellectual property matter where the plaintiff knew that he was dealing with a company, rather than a director as an individual. Trevor Ivory was the sole director of the company and advised customers to use a particular herbicide. He failed to warn the customers that it could harm a nearby raspberry crop, which it did. The company was found liable in tort and in contract, but the director was not held to be liable. Hardie Boys J held that there needed to be some assumption of responsibility, either actual or implied, by the director before he could be personally liable. This, his Honour said, may be easier to demonstrate in respect of a large company, where there are clear allocations of responsibility, than in a small one.

In *Williams v Natural Life Health Foods Ltd* [1998] 1 WLR 830; [1998] 2 All ER 577, the House of Lords considered whether a director was liable in a case of negligent misstatement by the company. Lord Steyn¹⁴ examined the notion of a separate legal entity, distinguishing *Fairline Shipping* and approving *Trevor Ivory*. Lord Steyn gave strong support to the underlying policy consideration that directors, officers and employees of companies should not be exposed to a plethora of new claims (at 838). His Lordship saw the key issue as whether the director had a special relationship with the plaintiff so as to assume personal responsibility. Although the joint tortfeasor point was not pleaded or argued below, his Lordship rejected it in any event because there was no assumption of responsibility.¹⁵

CBS Songs Ltd v Amstrad Consumer Electronics plc [1988] AC 1013 concerned the manufacture of equipment that could be used for making copies of sound recordings using cassette tapes. The appellant copyright owners argued that the manufacturers were liable as joint tortfeasors with the individuals who used that equipment to reproduce tapes in which copyright subsisted. Lord Templeton referred to the "common design" test in *The Koursk*. The Appellate Committee of the House of Lords held that the manufacturers of the taping equipment were not liable as joint tortfeasors, putting the emphasis on the need for the common design. Lord Templeman's test, as captured in later English authority,¹⁶ requires that the individual both "intend and procure" the infringement and "share in a

¹¹ As a general principle, that can be difficult: see *Tsaprazis v Goldcrest Properties Pty Ltd* (2000) 18 ACLC 285; [2000] NSWSC 206.

¹² The central issue was whether the common law rule that a judgment against one joint tortfeasor is a bar to an action against any other joint tortfeasor had been removed by the *Civil Law Act* (Sing), s 11.

¹³ Citing *Performing Right Society v Ciryil Theatrical Syndicate* [1924] 1 KB 1.

¹⁴ With whom Lord Goff, Lord Hoffman, Lord Clyde and Lord Hutton agreed. Alleged liability was based on the extended principle of *Hedley Byrne v Heller & Partners* [1964] AC 465.

¹⁵ *Wah Tat Bank v Chan Cheng Kum* [1975] AC 507 was not referred to in the judgment, and there would seem to be significant tension between the two decisions.

¹⁶ *MCA Records v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441.

common design that the infringement take place". It will be argued later in this article that the various tests for whether a director is a joint tortfeasor with his or her company articulated in Australian courts do not give adequate attention to this fundamental precondition to joint tortfeasor liability.

APPLICATION TO INTELLECTUAL PROPERTY STATUTES

Perhaps the earliest articulation of the concept of joint liability in an intellectual property context is *Betts v De Vitre* (1868) LR 3 Ch App 429. Chelsford LC held that a director was liable for the patent infringement on a master and servant analysis. The case was decided before *Salomon v Salomon & Co Ltd* [1897] AC 22, and discloses no hint of the concept of a corporate veil, nor any reasoning that has been picked up in modern cases. However, in the passing off case of *Cropper Minerva Machines Co v Cropper, Charlton & Co Ltd* (1906) 23 RPC 388, Farwell J held that it was wrong to join directors as co-defendants where the only specific allegation against them was that they were directors.

British Thomson-Houston Co Ltd v Sterling Accessories Ltd [1924] 2 Ch 33; (1924) 41 RPC 311 concerned a patent infringement action. The plaintiff argued that the companies were the agents of the directors; an analysis which has similarities to the narrowest of the modern approaches.¹⁷ Tomlin J found that a director was not liable, even though he was the person on whose instructions the tort has been committed (at 317).¹⁸ In *Prichard & Constance (Wholesale) Ltd v Amata Ltd* (1924) 42 RPC 63, Romer J dismissed the claim for trade mark infringement against the directors because there was no evidence that the company was formed for the purpose of doing a wrongful act.

Performing Right Society v Caryl Theatrical Syndicate [1924] 1 KB 1 is often cited as authority for the liability of directors as joint tortfeasors, and for the application of that doctrine to intellectual property infringements. In that case, the issue was whether the managing director was liable, in addition to his company, for infringing performances of a band. As Scrutton LJ made clear, the issue was whether the director authorised the infringing performance under the *Copyright Act 1911* (UK), which provided for liability for authorisation in a form similar to modern copyright legislation.¹⁹ Scrutton LJ set aside the verdict against the director in circumstances where he was overseas at the time of the performance. Bankes LJ disposed of the appeal on the same basis without reference to tort.

Curiously, the third member of the court, Atkin LJ, decided the matter on the basis that breach of copyright is a "tort", so the director was liable as a joint tortfeasor. Atkin LJ relied on *Rainham* in support of the proposition that a director will be liable for the tortious acts of a company if he ordered or procured the acts to be done. His Lordship referred to Lord Buckmaster's requirement in *Rainham* that the directors "expressly direct that a wrongful thing be done", and then purported to widen the test by eliminating the "expressly" element. His Lordship went on to join with the other members of the Kings Bench in allowing the director's appeal in setting aside the judgment against him.

It is not clear why Atkin LJ borrowed from the principles of tort where there was a plain statutory basis for liability of a person who authorised the infringement, and where it appears from the report that the trial and the appeal were argued on that basis. It is hard to find any prior consideration of breach of copyright as a tort, and the patent and trade mark cases being decided at about that time²⁰ were wrestling with the personal liability of directors on a completely different basis. As Beazley J later noted,²¹ Atkin LJ did not give due consideration to the separate legal existence of the corporation, or to the fact that the corporation only acts through its directors. Notwithstanding these

¹⁷ In particular, *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 449; 87 IPR 1 (Emmett and Jessup JJ).

¹⁸ Applying in *Salomon v Salomon & Co Ltd* [1897] AC 22 and *Rainham Chemical Works v Belvedere Fish Guano* [1921] 2 AC 465 and distinguishing *Betts v De Vitre* (1868) LR 3 Ch App 429 at 441.

¹⁹ *Copyright Act 1968* (Cth), ss 36, 101 are similar to *Copyright Act 1911* (UK), s 1(2) which lists the acts comprising the copyright and includes "and to authorise such acts as aforesaid".

²⁰ *Badische Anilin und Soda Fabrik v Henry Johnson* [1897] 2 Ch 322, *Cropper Minerva Machines Co v Cropper, Charlton & Co Ltd* (1906) 23 RPC 388, *British Thomson-Houston Co Ltd v Irradiant Lamp Works Ltd* (1924) 41 RPC 338, *Prichard & Constance (Wholesale) Ltd v Amata Ltd* (1924) 42 RPC 63, *British Thomson-Houston Co Ltd v Sterling Accessories Ltd* [1924] 2 Ch 33.

²¹ *King v Milpurruru* (1996) 66 FCR 474 at 500; 34 IPR 11.

problems, the key passage in Atkin LJ's reasons for judgment has been treated as establishing that the common law doctrine of joint tortfeasance applies to intellectual property infringements. Many of the earlier applications of joint tortfeasance to statutory intellectual property claims followed Atkin LJ without much consideration of the proper basis for the application of the doctrine.²²

However, although the case for personal liability of directors gained momentum in the 1980s, it was not without dissent. In *White Horse Distillers v Gregson Associates Ltd* [1984] RPC 61, Nourse J, having noted the tension between the nature of a company as a separate legal entity and the tortious notion that persons should be responsible for their conduct, said that a director should make the act or conduct his own as distinct from that of the company before he can be personally liable. His Honour described the idea that a director is personally liable merely because they expressly or impliedly direct or procure the commission of a tortious act as "irrational" and noted that this would make every director of a one man company liable for every act of the company (at 91-92).

The judgment of Gummow J in *WEA International Inc v Hanimex Corp Ltd* (1987) 17 FCR 274; 10 IPR 349 is sometimes cited in Australian intellectual property matters as the basis for the application of joint tortfeasor liability. His Honour was dealing with a copyright authorisation issue. The producers of blank tapes had advertised their product in a way suggesting that they should be used to make reproductions of recordings in which copyright subsisted, including recordings of Madonna songs. There was no evidence of any person having actually copied any of the applicant's sound recordings. Gummow J dismissed a claim that the blank tape providers had, in making the advertisement, authorised the unlawful copying of Madonna records. The report of his Honour's reasons makes it clear that he was dealing with a question of authorisation under s 101 of the *Copyright Act 1968* (Cth). After tracing the history of copyright legislation in Australia, with particular reference to the concept of authorisation in that legislation, his Honour said (at 283):

It should be added that infringement of copyright statutes for long has been considered tortious, so as to make applicable the common law principles as to liability of joint tortfeasors. However, those principles would not have provided an answer for the plaintiffs in cases such as *Sarpy v Holland* [[1908] 2 Ch 198 at 199]. This was because the circumstances that two or more persons assisted or concurred in or contributed to an act causing damage is not itself sufficient to found joint liability; some common design is necessary: *Morton-Norwich Products Inc v Intercen Limited* [1978] RPC 501 at 515-516.²³

Importantly, Gummow J noted the requirement for a common design. His discussion of the liability of directors clearly proceeds on the presumption that there is a separate source of liability for directors outside any question of infringement under the statute. In disposing of the joint tortfeasor issue,²⁴ his Honour said (at 283):

Where the infringer is a corporation, questions frequently arise as to the degree of involvement on the part of directors necessary for them to be rendered personally liable. Those questions are not immediately answered by principles dealing with "authorization" or joint tortfeasance. Rather, recourse is to be had to the body of authority which explains the circumstances in which an officer of a corporation is personally liable for the torts of the corporation: *Polaroid Corporation v Sold N Pty Ltd* [1981] 1 NSWLR 491 at 498; *C Evans and Sons Ltd v Spritebrand Ltd* [1985] 1 WLR 317; *Kalamazoo (Aust) Pty Ltd v Compact Business Systems Pty Ltd* (1985) 84 FLR 101 at 127; cf *Yorke v Lucas* (1985) 158 CLR 661. The present is not such a case. Nor is there any issue as to vicarious liability of an employer for the torts of an employee.

Like *Performing Right Society*, *WEA International* has been cited in later decisions as authority for the broad application of joint tortfeasorship to intellectual property infringements, often without

²² *Kalamazoo v Compact Business Systems* (1985) 84 FLR 101; 5 IPR 213 (a statutory authorisation case); *Polaroid Corp v Sole N Pty Ltd* [1981] 1 NSWLR 491; *C Evans & Sons Ltd v Spritebrand Ltd* [1985] 2 All ER 415; [1985] 1 WLR 317 (a strike out case that confused joint tortfeasor liability with liability for authorisation under the *Copyright Act 1956* (UK), s 1(2)); but see *Reitzman v Grahame-Chapman & Derustit Ltd* (1950) 67 RPC 178.

²³ *Sarpy v Holland* [1908] 2 Ch 198 was decided before liability for authorisation had been introduced to English legislation.

²⁴ Gummow J seemed to accept that common law principles of joint tortfeasance applied, and was a basis for liability separate from authorisation, and suggested that joint tortfeasance might justify a narrower construction of the word "authorise" in the legislation.

regard to Gummow J's requirement that there be a common design. Subsequent authority has assumed the existence of the principle, and focused on the test for how involved in the infringing conduct a director must be.

THE SEARCH FOR AN APPROPRIATE TEST

In the intellectual property joint tortfeasor cases that do not involve directors, but rather two separate actors,²⁵ the courts are quite insistent on the need for common purpose. That important factor has sometimes been largely overlooked in designing a test for directors. Of the various tests applied by Australian courts as the basis of personal liability for corporate torts, a popular one is the "deliberately wilfully or knowing concerned" test.

This test was derived from the Canadian case of *Mentmore Manufacturing v National Merchandising Manufacturing* (1978) 89 DLR (ED) 195, and was preferred by Beazley J in *King v Milpurrurru* (1996) 66 FCR 474; 34 IPR 11. In *Milpurrurru* (at 500), Beazley J²⁶ preferred the *Mentmore* test, deciding that Atkin LJ's "directed or procured" test²⁷ paid insufficient regard to the separate legal existence of a company, or the fact that it acts through directors.

Lindgren J preferred the "directed or procured" test in *Microsoft Corp v Auschina Polaris Pty Ltd* (1996) 71 FCR 231; 36 IPR 225. Like *Milpurrurru*, *Auschina* concerned indirect infringement under ss 37 and 38 of the *Copyright Act 1968* (Cth) for which there is no statutory liability for authorisation. Lindgren J went on to draw a distinction between cases where a person has voluntarily elected to deal with the company rather than a director (such as in the case of a contract) and cases where the aggrieved party did not consent to dealing with the company (such as the importation issue before his Honour). Lindgren J held the director to be liable on the "directed or procured" test even though he had neither imported nor sold the goods in question.

In *Root Quality Pty Ltd v Root Control Technologies* (2000) 177 ALR 231 at 268; 49 IPR 225, Finkelstein J doubted the general line of authority that makes individual directors personally liable. His Honour pointed out that generally, directors are not liable for causing their companies to interfere with another person's rights, and referred to the rule in *Said v Butt*.²⁸ He observed that the conduct of the director must be such that it can be said of him that he was so involved in the commission of the unlawful act that he should be rendered liable. Finkelstein J saw the key element as the extent of the director's personal involvement in the unlawful acts. His Honour's observations have received some support at the Full Court level²⁹ and he adhered to his formulation in a later case.³⁰ Finkelstein J's test has been interpreted subsequently as both as a stricter form of the test,³¹ and simply as an application of the *Mentmore* test.³²

There is a formulation that is arguably even stricter than Finkelstein J in *Root Quality*; that a director is only liable where they have gone beyond the exercise of constitutional control of the

²⁵ *WEA International Inc v Hanimex Corp* (1987) 17 FCR 274; 10 IPR 349; *Morton Norwich Products v Intercon Ltd* [1978] RPC 501; *Louis Vuitton Malletier v Toea* (2006) 156 FCR 158; *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013

²⁶ With whose orders Jenkinson J agreed for different reasons.

²⁷ In *Performing Right Society v Cyril Theatrical Syndicate* [1924] 1 KB 1.

²⁸ *Said v Butt* [1920] 3 KB 497.

²⁹ *Cooper v Universal Music Australia Pty Ltd* (2006) 156 FCR 380 at [161]; [2006] FCAFC 189 (Kenny J; with whom French J agreed at [1]).

³⁰ *IS & B Retail Systems Pty Ltd v 3 Fold Resources Pty Ltd (No 3)* (2007) 158 FCR 444 at [186]; [2007] FCA 151 at [186].

³¹ See *Universal Music Australia v Sharman Licence Holdings* (2005) 220 ALR 1; 65 IPR 289 (Wilcox J).

³² *Allen Manufacturing v McCallum & Co* (2001) 53 IPR 400 at 410.



company.³³ This embraces the idea that it is only when the director has stepped outside the protection of the corporate entity that he or she may be treated as a separate actor. In *MCA Records Inc v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441, a shadow director was heavily involved in causing the company to make infringing reproductions of records. Chadwick LJ (with whom Tuckley and Simon Brown LJ agreed) said that a director will not be liable if he simply votes at board meetings and does not go beyond the exercise of constitutional control of the company.³⁴ However, having identified the limits placed on personal liability by the House of Lords in *CBS Songs*³⁵ and having adopted the requirement that a director must go beyond his or her constitutional role, Chadwick LJ held that it was necessary and sufficient that the director procured or induced the company to do the tortious act.³⁶ On that basis the English Court of Appeal found the director liable.

In *Pioneer Electronics Australia Pty Ltd v Lee* (2001) 108 FCR 216 at [45] 233; 51 IPR 291, Sundberg J noted the “uncertain state” of the law and identified four separate views:

1. A director will be liable along with the company when he has procured or directed it to commit the tort: *Performing Right Society Ltd v Ciryil Theatrical Syndicate Ltd* [1924] 1 KB 1 at 14; *Kalamazoo (Aust) Pty Ltd v Compact Business Systems Pty Ltd* (1985) 84 FLR 101 at 127; *Martin Engineering Co v Nicaro Holdings Pty Ltd (No 2)* (1991) 100 ALR 358; *Microsoft Corporation v Auschina Polaris Pty Ltd* (1996) 71 FCR 231; 142 ALR 111; *Lott v JBW & Friends Pty Ltd* (2000) 76 SASR 105; *Henley Arch Pty Ltd v Clarendon Homes (Aust) Pty Ltd* (1998) 41 IPR 443 at 464.
2. A director will be liable only if he has made the wrongful act his own as distinct from it being an act of the company: *Mentmore Manufacturing Co Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195; *White Horse Distillers Ltd v Gregson Associates Ltd* [1984] RPC 61 at 91; *King v Milpurruru* (1996) 66 FCR 474 at 495-501; 136 ALR 327 at 346-351.
3. A director will be liable if he has assumed responsibility for the company’s acts: *Trevor Ivory Ltd v Anderson* [1992] 2 NZLR 517.
4. A director is not liable for procuring the company to infringe the rights of others: *Said v Butt* [1920] 3 KB 497; *O’Brien v Dawson* [1942] HCA 8; (1942) 66 CLR 18 at 32, 34; *Rutherford v Poole* [1953] VLR 130; *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* [2000] FCA 980; (2000) 177 ALR 231.³⁷

In *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* (2010) 85 IPR 525 at [179]; [2010] FCA 108, Bennett J recorded the tests for determining whether a director is liable as a joint tortfeasor for acts committed by the company, as put forward by the parties:

1. The test propounded by Lindgren J in *Microsoft Corporation v Auschina Polaris Pty Ltd* (1996) 71 FCR 231 at 246, namely whether the director “directed or procured the infringing act” (the *Auschina* test) (applying *Performing Right Society Ltd v Ciryil Theatrical Syndicate Ltd* [1924] 1 KB 1 at 15 per Lord Aitkin).
2. The test first suggested by Finkelstein J in an obiter remark in *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* [2000] FCA 980; (2000) 177 ALR 231 at [146], namely whether the director’s conduct is “such that it can be said of him that he was so personally involved in the commission of the unlawful act that it is just that he should be rendered liable” (the *Root Quality* test).
3. The test propounded in the Canadian case *Mentmore Manufacturing Co Limited v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (ED) 195, namely whether “the director

³³ Even though in *Root Quality Pty Ltd v Root Control Technologies Pty Ltd* (2000) 177 ALR 231 at [146]; 49 IPR 225, Finkelstein J said that the decisive consideration was the extent of the director’s personal involvement in the commission of the unlawful acts, that condition might be met even when the director is acting entirely within his or her constitutional role and bona fide in the interests of the company.

³⁴ Citing *Standard Chartered Bank v Pakistan National Shipping Corp (No 2)* [2000] 1 Lloyd’s Rep 218 at 235. Having said that, the facts of that case did not provide a good vehicle to explore the point as the defendant, being a shadow director, had no constitutional duties. All three members of the Full Court emphasised the point about stepping outside the constitutional duties in *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 449; 87 IPR 1 which involved properly appointed directors.

³⁵ *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013.

³⁶ His Lordship sought to explain away Lord Steyn’s comments in *Williams v Natural Life Health Foods Ltd* [1998] 1 WLR 830; [1998] 2 All ER 577 and held they were not binding on him.

³⁷ *Pioneer Electronics Australia Pty Ltd v Lee* (2001) 108 FCR 216 at 233; (2001) 51 IPR 291 (Sundberg J said that the “clear preponderance of authority” favoured the first approach (at 234)).

made the infringing conduct his own in the sense that the director deliberately, wilfully or knowingly pursue[d] a course of conduct that was likely to constitute infringement or that reflected indifference to the risk of infringement” (the *Mentmore* test).³⁸

The concept of liability as a joint tortfeasor has been applied in a number of Federal Court first instance decisions dealing with intellectual property rights, sometimes without consideration of whether the statutory liability for authorisation is available, or whether the application of the notion of joint tortfeasors is soundly based.³⁹ The Full Court of the Federal Court has examined the principle on a number of occasions⁴⁰ without settling the issue of which test is to be applied.

The Full Court of the Federal Court recently conducted a rigorous review of this basis for liability in *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499; 87 IPR 1. That case concerned an allegation that two directors, Mr Armstrong and Mr Keller, were personally liable for the company’s infringement of a registered design. Besanko J, in the minority, would have allowed the appeal by Mr Armstrong against his personal liability, but not by Mr Keller.⁴¹ Emmett and Jessup JJ held that neither director was liable, and gave similar reasons in separate judgments.

Central to Jessup J’s reasoning was the idea that in order for the enterprise to be “joint”, the director must be acting in a way that is conceptually separate from the company. This, his Honour said, was the true meaning of “making the tort his or her own”, because unless the acts are done in the director’s own personal capacity, or a “non-company” capacity, there will be no “jointness” about the infringing activity but only one infringer. In his Honour’s view, acts which are done in good faith which the director reasonably believes are in the interests of the company will be acts done in the service of the company for which the director cannot be liable. Jessup J challenged the fundamental idea that a director could be liable in the case where there would be no wrong at all but for the acts of the company (such as a design infringement or an importation case). This was because the conventional rules as to joint tortfeasance assume a duality (or multiplicity) of actors.

Emmett J said that in order to be liable, a director must do something that makes him or her, in addition to the company, an invader of the victim’s rights.⁴² Having analysed the evidence against Mr Keller, Emmett J concluded that the evidence did not support the conclusion that Mr Keller “intended or procured” the infringement or shared in a common design. His Honour also found that the evidence did not support the conclusion that Mr Keller was using the company as an instrument of his own, nor that he was acting in his personal capacity that was separate from the good faith discharge of his services to the companies.

Unfortunately, while Jessup J noted that the question of the appropriate test was directly raised on the appeal and that the Full Court ought to attempt to resolve some of the issues disclosed in the authorities, there is some doubt as to whether any majority in support of a particular test emerges from reasons for judgment of the Full Court. Emmett J took a similar approach to Jessup J, and joined in

³⁸ Bennett J found the director liable on both the *Microsoft Corp v Auschina Polaris Pty Ltd* (1996) 71 FCR 231; 36 IPR 225 and *Mentmore Manufacturing Co Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195 tests, and found it unnecessary to resolve which test should be applied. The issue is part of an appeal lodged by the director, and the correct test is in issue.

³⁹ See, eg *Bing! Software Pty Ltd v Bing Technologies Pty Ltd (No 1)* (2008) 79 IPR 454; *Barrett Property Group Pty Ltd v Metrickon Homes Pty Ltd* (2007) 74 IPR 52; *A/Asian Performing Right Association Ltd v Metro on George Pty Ltd* (2004) 61 IPR 575; *Wellness Pty Ltd v Pro Bio Living Waters Pty Ltd* (2004) 61 IPR 242; *Martin Engineering Co v Nicaro Holdings Pty Ltd* (1991) 100 ALR 358; *Henley Arch Pty Ltd v Clarendon Homes (Aust) Pty Ltd* (1998) 41 IPR 443; *Microsoft Corp v Goodview Electronics Pty Ltd* (2000) 49 IPR 578; *Sony Music Entertainment (Aust) Ltd v CEL Music Pty Ltd (In Liq)* (2002) 54 IPR 289; *AMI Australia Holdings Pty Ltd v Bade Medical Institute (Aust) Pty Ltd (No 2)* [2009] FCA 1437; *Inverness Medical Switzerland GmbH v NSD Diagnostics Pty Ltd* (2010) 85 IPR 525.

⁴⁰ *Allen Manufacturing Co Ltd v McCallum & Co Pty Ltd* (2001) 53 IPR 400; [2001] FCA 1838; *Cooper v Universal Music Australia* (2006) 156 FCR 380; [2006] FCAFC 189; *Red Bull Australia Ltd v Sydneywide Distributors* (2002) IPR 354; [2002] FCAFC 157.

⁴¹ Noting that to be liable, the directors must go beyond the constitutional control of the company and citing *MCA Records Inc v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441; Balkin RP and Davis JLR, *Law of Torts* (4th ed, LexisNexis Butterworths, Australia, 2009).

⁴² Citing *O’Brien v Dawson* (1942) 66 CLR 18 at 32-33.

making the orders of the Court. However, his Honour gave a separate judgment, and his reasons for allowing the appeal by both directors differ slightly from those of Jessup J.⁴³

FURTHER LOGICAL AND PROCEDURAL PROBLEMS

Against the background of the patchy jurisprudence that allowed the principle of joint tortfeasance to morph into the statutory intellectual property field, and the struggle to identify an appropriate test, it is convenient to identify some of the fundamental problems faced by the application of the tortious doctrines in this context.

The first problem, which has received significant attention, is that the company is a separate legal entity. A further difficulty, which has been largely passed over, is that it is hard to find any proper basis for calling a statutory intellectual property infringement a tort in the first place. If it can be called a tort, it leads to tensions with existing State-based laws governing torts. It is also important to consider the areas of intellectual property that do have a statutory basis for liability of directors for authorisation of an infringement, and the practical implications of having two very different tests for liability.

Separate legal entity

A company is a separate legal entity.⁴⁴ It cannot act in its own person for it has no person,⁴⁵ so it acts through directors and employees. Notwithstanding the organic theory of a company⁴⁶ the notion of agency is sometimes applied (perhaps by analogy) to the conduct a director undertakes on behalf of their company.⁴⁷ Under general agency law, an agent acting within his or her authority on behalf of a disclosed principal may enter into a contract on behalf of the principal and does not become a contracted party,⁴⁸ whereas an agent, as well as the principal, will be liable for the agent's tort.⁴⁹

However, the distinction between the agency principles in tort and contract give rise to a difficulty. If a director that causes the company not to pay a debt is liable in tort for procuring a breach of contract, then the notion of having a company as a separate legal identity (at least in relation to contract) is substantially undermined. This would seem hard to justify in circumstances where the third party plaintiff chose to deal with the company and was on notice of its limited liability and separate legal status.⁵⁰ It might be that this difficulty explains the rule in *Said v Butt*; that the tort of procuring a breach of contract cannot be used to sidestep important contract principles. If it can be explained on this basis, perhaps it is a reason why the rule in *Said v Butt* has not been applied

⁴³ While Emmett J did not expressly agree with the reasons for judgment of Jessup J, his Honour's conclusion at [88] has a number of similarities to it. However, his Honour's reasoning could be interpreted as a finding that no matter what the test, Mr Keller would not have been liable.

⁴⁴ *Salomon v Salomon & Co Ltd* [1897] AC 22; *JH Rayner (Mincing Lane) Ltd v Department of Trade and Industry* [1990] 2 AC 418.

⁴⁵ *Ferguson v Wilson* (1866) 2 Ch App 77 at 89.

⁴⁶ In *Leonard's Carry & Co Ltd v Asiatic Petroleum Co Ltd* [1915] AC 705 at 713-714, Viscount Haldane LC said that directors acting on behalf of a company were not its agents, but were the company itself. See also *Tesco Supermarkets Ltd v Natrass* [1972] AC 153 (Lord Reid).

⁴⁷ For example *MCA Records v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441 (Chadwick LJ).

⁴⁸ *Scott v Davis* (2000) 204 CLR 333 at [228] (Gummow J).

⁴⁹ *Ex parte Colonial Petroleum Oil Pty Ltd* [1944] 44 SR (NSW) 306 at 308 (Jordan CJ); *Schultz v Cornwill Properties Pty Ltd* [1969] 2 NSWLR 576 at 582-583 (Street J); *JF & BE Palmer Pty Ltd v Blowers & Lowe Pty Ltd* (1987) 16 FCR 89; 75 ALR 509 at 511.

⁵⁰ As Lindgren J noted in *Microsoft Corp v Auschina Polaris Pty Ltd* (1996) 71 FCR 231; 36 IPR 225. In *Idoport Pty Ltd v National Australia Bank* [2001] NSWSC 328, Einstein J distinguished between cases where a plaintiff consented to deal with a company and those where they did not.

uniformly to other torts. Importantly, the rule in *Said v Butt* does not apply where the director is not acting bona fide within the scope of his or her authority in the best interests of the company.⁵¹

Some judges have attempted to reconcile these difficulties by starting from the proposition that a director who does no more than his or her directorial role on behalf of the company will not ordinarily be liable. The English Court of Appeal⁵² recognised that a director acting within his or her constitutional role as an organ of the company will be less likely to be personally liable. In *Hoover plc v George Hulme (Stockport) Ltd* [1982] FSR 565, a copyright case, Whitford J held that a director was not liable for authorising or procuring an infringement because he did no more than act in his capacity as a director.⁵³

Even leaving aside the rule in *Said v Butt*, the sidestepping of the corporate veil has a number of logical and policy-based difficulties. What happens in a situation where a person has chosen to deal with the company and has entered into a contract with the company that includes an exclusion clause for tortious actions by the company? Does the plaintiff enjoy a separate cause of action against the director notwithstanding the contractual election to hold the company harmless?⁵⁴ Depending on the policy of insurance the company maintained, the director may have to cross-claim against their company for contribution.⁵⁵

The idea of a director acting within his or her constitutional role being immune from liability as a joint tortfeasor has attractions when viewed from the perspective of corporations law. A director has duties to the company and to its shareholders. It may be that the proper discharge of those duties involves taking risks, with a view to making profit, which may ultimately result in an infringement. Consider the situation where a director of a company has legal advice that a profitable invention does not infringe a particular patent, and decides to put the invention into production in the interest of the shareholders. If the legal advice is ultimately shown to be wrong, and the invention held to be infringing, has the director exposed themselves to personal liability by doing no more and no less than what was required of them in discharging their fiduciary duty?⁵⁶ Even where the court imposes a requirement for a director to go beyond their constitutional role before they can be liable,⁵⁷ it is not always clear which types of infringement will be outside the director's constitutional role.

In *Mentmore*, Le Dain J emphasised the tension between the tort law principle that everyone should be answerable for their tortious acts and the corporate law notion that a company is a separate and distinct legal entity, and that its directors and shareholders are entitled to protection from individual liability in performance of their duties.⁵⁸ On one view, that tension is resolved by the fact that an intellectual property infringement, being an infringement of a statutorily granted right with particular statutory remedies, is not a "tort". That introduces an analysis of whether there is any proper jurisprudential basis for calling a statutory intellectual property infringement a tort in the first place.

⁵¹ *Cook Strait Skyferry Ltd v Dennis Thomson International Ltd* (1993) 2 NZLR 72 at 78. There is a possible further exception in Canada, namely that the director's dominating concern was depriving the plaintiff of contractual benefits: *Imperial Oil Ltd v C & G Ltd* (1989) 62 DLR (4th) 261.

⁵² *MCA Records v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441.

⁵³ Applying *Mentmore Manufacturing Co Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195; *Reitzman v Grahame-Chapman & Derustit Ltd* (1950) 67 RPC 178.

⁵⁴ *Yuille v B&B Fisheries (Leigh) Ltd (The "Radiant")* [1958] 2 Lloyd's Rep 569 at 619-620 would seem to suggest that result.

⁵⁵ See the discussion of the difficult interplay with State legislation on contribution and proportional liability below.

⁵⁶ In *King v Milpurruru* (1996) 66 FCR 474; 34 IPR 11; Jenkinson and Beazley JJ thought that the directors' behaviour (in the case of an obvious infringement) may have been a breach of their duty to the company, but it was not enough to make them personally liable.

⁵⁷ *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499; 87 IPR 1; *MCA Records v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441; *Hoover plc v George Hulme (Stockport) Ltd* [1982] FSR 565.

⁵⁸ *Mentmore Manufacturing Co Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195 at 202.

Calling a statutory claim a “tort”

Copyright is a creature of statute.⁵⁹ To the limited extent that there was a right in common law in connection with copyright, it was removed by the Statute of Anne.⁶⁰ Patents can similarly be regarded as statutory,⁶¹ and it is even harder to see a common law basis for design monopolies given the *Designs Act 2003* (Cth). Trade mark registration is a purely statutory system, and operates independently of passing off.

Parliament has decided the scope of liability and the remedies for these statutory causes of action. It has decided that persons (including directors) may be liable for authorising certain infringements⁶² but not others.⁶³ It is unsurprising that the use of a common law doctrine to interpret a statute has been described as “a bold step”,⁶⁴ given that it extends statutory liability beyond the statute, and in some cases, in a manner that is inconsistent with the statute.

Liability of directors as joint tortfeasors began when judges began talk about infringement of statutory intellectual property rights as “torts”. This might be right as a matter of language, but the word “tort” has developed its own meaning in the common law, and refers to an identifiable body of common law doctrines. The language does not justify the importing of an entire doctrine from the common law and supplanting it upon the scheme of statutory liability.

It is hard to find a definition of the term “tort” that is wide enough to include statutory intellectual property infringements. In *McPherson v Kevin J Prunty & Associates* [1983] 1 VR 573, Murphy J defined torts as breaches of a duty owed generally to one’s fellow subjects, being a duty imposed by law rather than as a consequence of the duties fixed by the parties themselves. Other definitions have included the condition that the right to compensation arises at common law.⁶⁵ It is true that some types of statutory duty will ground an action in tort when they are breached, but this is to be distinguished from cases where the statute itself provides a remedy for the damages.

It is hard to see a logical basis for asserting that just because two people infringe a statutory right, rather than one, the infringement suddenly falls to be decided under common law principles. So to call a statutory infringement a “tort” as a pathway to borrowing a particular strand of the common law so as to make people liable against the wishes of Parliament is creative. That creative step warrants close attention. However, one may search in vain for any reasoned analysis of why statutory infringements are a tort in the relevant sense.⁶⁶

The cases where statutory liability for authorisation is available, of which *Performing Right Society* is a famous example, could be criticised for making an unnecessary leap towards tortious

⁵⁹ *Copyright Act 1968* (Cth), s 8.

⁶⁰ 8 Anne, c.19; *Donaldson v Beckett* (1774) 4 Burr 248.

⁶¹ *Statute of Monopolies 1923* (IMP), 21 Jac 1, 03.

⁶² Such as direct infringements of copyright: the *Copyright Act 1968* (Cth), ss 36, 101 and authorisation under the *Designs Act 2003* (Cth), s 10(1)(f). A director may be liable for authorising a patent infringement under the *Patents Act 1990* (Cth), s 13(1): *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* (2010) 85 IPR 525 at [102]; [2010] FCA 108; *Bristol-Myers v Squibb Company v F H Haulding & Co Ltd* (2000) 97 FCR 524; [2000] FCA 316.

⁶³ Indirect copyright infringement, such as importation and sale under the *Copyright Act 1968* (Cth), ss 37, 38, has no statutory liability for authorisation. Designs law appears to have no statutory liability for authorisation, although Jessup J refused to rule out the idea that a third party could ever be liable under the *Designs Act 2006* (Cth), s 71 in *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [398]; 87 IPR 1.

⁶⁴ *Unilever plc v Gillette (UK)* [1989] RPC 583 at 603 per Mustill LJ, although his Lordship thought it firmly established in *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013.

⁶⁵ *R v Secretary of State for Transport; Ex parte Factortame (No 7)* [2001] 1 WLR 942; *Sobota v Kleider* (1986) 36 CCLT 79 at 83 (Macdonell J); Mackay (Lord), *Halsbury’s Laws of England* (4th ed, Butterworths, 1999) at [301].

⁶⁶ Mustill LJ did question the principle in *Unilever plc v Gillette (UK) Ltd* [1989] RPC 583, and described it as a bold step. However, his Lordship felt that it was established by the House of Lords in *CBS Songs v Amstrad Consumer Electronics plc* [1988] AC 1013, notwithstanding the bland and unreasoned approach of Lord Templeman in acknowledging the existence of such liability, and the fact that the House of Lords in that case dismissed an appeal from a decision striking out the pleaded case against the alleged joint tortfeasor.

liability. In *Williams*,⁶⁷ Lord Steyn referred to the role of tort of “filling the gap” left by contract. There is no gap to fill in statutory intellectual property laws, even where there is liability for authorisation. For almost as long as the statutory rights have existed, courts of equity have lent their auxiliary jurisdiction to intellectual property cases to grant a wide range of remedies that are not available for most torts. This means that a plaintiff that complains of an infringement may get an injunction to prevent the conduct occurring, delivery up of particular items and an account of the profits wrongfully earned. These remedies are now enshrined in the relevant legislation. In the case of copyright, Parliament has even gone so far as to allow damages to be assessed on the basis of the conversion of the article on which the infringing work is stored. Many of these remedies are capable of ameliorating against insolvency of an infringing corporate entity.⁶⁸ It is hard to see how tort needs to fill any gap.

Further problems with using the label “tort”

That creative step, when taken to its natural conclusion, suffers from a number of logical problems. It would be more logical (though no more sound in principle) to say that a statutory intellectual property right is an “equity”. Indeed, equity has lent its auxiliary jurisdiction to the field of intellectual property for centuries. Yet the approach to liability of directors in equity is consistent with that in contract; the director will not be liable unless they can be found liable on a *Barnes v Addy*⁶⁹ basis in respect of an existing trust.⁷⁰ Clearly, infringement of specific statutory intellectual property rights does not give rise to an equity, or enliven remedies customarily confined to the exclusive jurisdiction of equity, like constructive trust and tracing.

To take that idea one step further, it is no less illogical to suggest that a failure to adhere to an equitable obligation of confidence was a “tort”. After all, an equitable obligation of confidence has long been considered an intellectual property right. This would lead to the conclusion that the director of a company, who is relevantly concerned as a participant in the use of confidential information, will be liable as a “joint tortfeasor”. Such a result cannot be reconciled with the fact that third parties would not be liable under the rule in *Barnes v Addy* because there is no breach of trust or fiduciary duty.⁷¹ Yet the point demonstrates the difficulty in describing any civil wrong as a “tort” so as to borrow a body of common law doctrines.

If the description of statutory intellectual property infringements as a “tort” is accurate, and justifies borrowing the body of common law that has come to be lumped under the heading “tort”, then the same analysis should apply to most statutory contraventions. A contravention of s 52 of the *Trade Practices Act 1974* (Cth) would be a tort for which directors may be jointly liable, and the introduction of s 75B was unnecessary. Directors could be made liable for contractual remedies under the contracts review legislation,⁷² or for unconscionable conduct under leasing legislation.⁷³ Surely, on the same basis, directors would be personally liable for the “civil wrong” of unpaid taxes, or at least tax penalties, notwithstanding particular but confined legislative liability.⁷⁴ The fee for every licence granted under a statute would be ultimately payable by the directors.

⁶⁷ *Williams v Natural Life Health Foods Ltd* [1998] 1 WLR 830; [1998] 2 All ER 577

⁶⁸ If the jurisdictional basis for director’s liability is to be determined according to the common law, presumably the available remedies are limited to common law remedies, and orders for delivery up and injunction are not available.

⁶⁹ *Barnes v Addy* (1874) LR9 Ch App 244. Broadly speaking, the rule in *Barnes v Addy* provides that a third party will be liable if they are knowingly involved in a breach of trust or fiduciary duty.

⁷⁰ *Wilson v Lord Bury* (1880) 5 QBD 518 at 527 (Brett LJ), 537 (Bramwell LJ); *Competitive Insurance v Davies Investments* [1975] 1 WLR 1240.

⁷¹ *Farrar Constructions v Say-Dee Pty Ltd* (2007) 230 CLR 89 at 144-145.

⁷² Such as *Contracts Review Act 1980* (NSW), s 8, because items (b) and (c) of Sch 1, allow for an order for the payment of money where a contract is found to be unjust.

⁷³ *Retail Leases Act 1994* (NSW), s 62B(8), for example.

⁷⁴ *Corporations Act 2001* (Cth), s 588FGA; *Income Tax Assessment Act 1936* (Cth), s 222AOC.

Even if a statutory intellectual property infringement is a “tort”, it does not necessarily follow that it is an intentional tort of the kind to which joint tortfeasance principles readily apply to directors. One important observation that emerges from *Tsaprazis v Goldcrest Properties Pty Ltd* (2000) 18 ACLC 285; [2000] NSWSC 206 is Hodgson CJ in Eq’s identification of particular areas of tort where the liability of directors as joint tortfeasors had been recognised. These are all intentional torts. It is unsurprising that the courts might be slower to find a director liable where the act is not an intentional tort, partly because of the inherent difficulty in finding a duty owed directly by the director to a third party.⁷⁵ In *Oakley Inc v Oslu Import & Export Pty Ltd* (2000) 48 IPR 32 at 39; [2000] FCA 700, Finn J questioned whether particular intellectual property infringements should be regarded as intentional torts. If the infringement of registered rights is more analogous to negligence than intentional torts, the finding that a director is a joint tortfeasor is even more problematic. In that connection, it may be important to distinguish between the types of infringement that have a necessary mental element, and those that do not.

It has been recognised that, in applying the doctrine of joint tortfeasors to intellectual property rights, it may be necessary to prove that a director had a particular knowledge or state of mind that is an element of the infringement.⁷⁶ This is particularly difficult in copyright where knowledge and causal connection are needed to establish the cause of action.⁷⁷ However, the analogy of intentional torts is interesting in relation to registered rights, where liability may arise without any intention.

In a patent context,⁷⁸ Bennett J noted that there was no mental element for patent infringement.⁷⁹ Her Honour interpreted the mental element in the *Mentmore* test relating to the course of conduct, rather than its characterisation as infringing (ie, the director may be liable even if he or she did not know the conduct was infringing). However, if there is no mental element, it is hard to see how the infringement could be equivalent to an intentional tort. That difficulty may be capable of being resolved by building an appropriate limitation into the test. For example, in *Keller*,⁸⁰ Besanko J said that a close personal involvement in the infringing acts was required, to which the director’s knowledge (including knowledge of whether the conduct is infringing) will be highly relevant.

There is also an argument that the application of the joint tortfeasor doctrine traverses the ground covered by an existing (but obscure) tort. There is much to be said for the application of the common law tort of procuring an infringement of a statutory right, which was referred to in *MCA Records*.⁸¹ In *Belegging-en Exploitiernaatschappij Lavender BV v Witten Industrial Diamonds* [1979] FSR 59, Buckley LJ suggested that a director may be liable on this basis for the company’s patent infringement.⁸² Such a tort (if it exists) would be far better placed to deal with the problematic results of attaching liability to statutory obligation.⁸³ If proper basis exists for separate liability of directors based on a tort of procuring an infringement of a statutory right exists, it makes it hard to justify inventing a separate basis of liability by borrowing the term “tort”, and suggests that a director is not a joint tortfeasor, but a primary infringer. On the other hand, if the tort does not exist, then that is

⁷⁵ *Kuwait Asia Bank v National Mutual Life Nominees* [1991] 1 AC 187 at 217. See *Yuille v B&B Fisheries (Leigh) Ltd (The “Radiant”)* [1958] 2 Lloyd’s Rep 596 at 619; *Fairline Shipping Corp v Adamson* [1975] QB 180; [1974] 2 All ER 967 for examples of a case where a separate duty was found.

⁷⁶ See *C Evans & Sons Ltd v Spritebrand Ltd* [1985] 1 WLR 317 (Slade LJ).

⁷⁷ Beazley J said in *King v Milpururru* (1996) 66 FCR 474 at 500; 34 IPR 11 that a director would need to have the requisite mental element proscribed by *Copyright Act 1968* (Cth), s 37 as well as acting deliberately or recklessly so as to make the tortious act his own.

⁷⁸ *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* (2010) 85 IPR 525; [2010] FCA 108.

⁷⁹ As Le Dain J had noted in *Mentmore Manufacturing Co Ltd v National Merchandising Manufacturing Co Inc* (1978) 89 DLR (3d) 195.

⁸⁰ *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [291]; 87 IPR 1.

⁸¹ *MCA Records v Charly Records Ltd* [2003] 1 BCLC 93; [2001] EWCA Civ 1441.

⁸² Citing *Lumley v Gye* (1853) 2 E&B 216 at 231, although that decision is customarily cited in connection with the tort of interfering with contractual rights.

⁸³ Although the rule in *Said v Butt* would provide a strong analogy.

because the common law has developed in such a way that it has not embraced it. This would seem to make it hard to justify creating a de-facto tort in its place by a strained exercise in nomenclature.

Tension with existing tort laws

Where the law in one area is expanded by borrowing the doctrines of another, tensions can arise. Statutory schemes in most jurisdictions in Australia have modified the common law. One example is the ousting joint and several liability of joint tortfeasors in favour of proportionate liability.⁸⁴ This means that the court may order a joint tortfeasor to pay only the portion of the damage which is proportional to their role, whether the other tortfeasor is a party or not. In addition to torts, legislation specifically enshrines proportional liability for contraventions of misleading or deceptive conduct provisions at both State⁸⁵ and federal⁸⁶ levels.

However, if liability of the director is in truth based on tort, the State laws mandating proportional liability must apply because the liability arises at common law by reason of the director's tortious acts, and not statute.⁸⁷ Is it open to a court to reduce the company's liability because an insolvent director has not been joined? This would seem nonsensical. Such an obtuse scenario underscores the conceptual and practical problems that arise from classifying a statutory cause of action as a common law one for particular purposes.

Given that the company's liability is statutory, and the director's liability apparently arises at common law, do the statutory reforms applying to contribution between tortfeasors apply? If a director being involved in a design infringement is a tort, then presumably actions for infringement against directors are caught by the State limitation of actions legislation.⁸⁸ It would seem to follow that claims for contribution between joint tortfeasors may be subject to conditions and limitations imposed by legislation in some States.⁸⁹

Query whether the statutory reform of the common law rule that a judgment or settlement against one joint tortfeasor releases the other⁹⁰ could apply to liability of directors in "tort".⁹¹ It was on the basis of this type of provision that the High Court held that there could be a judgment for compensatory damages against one joint tortfeasor and exemplary damages against another.⁹² In

⁸⁴ *Civil Law (Wrongs) Act 2002* (ACT), Ch 7A; *Civil Liability Act 2002* (NSW), s 34; *Proportionate Liability Act 2005* (NT); *Civil Liability Act 2003* (Qld), Ch 2 Pt 2; *Law Reform (Contributory Negligence and Apportionment of Liability) Act 2001* (SA), Pt 3; *Civil Liability Act 2002* (Tas), Pt 9A; *Wrongs Act 1958* (Vic), Pt IVAA; *Civil Liability Act 2002* (WA), Pt 1F.

⁸⁵ For example, *Civil Liability Act 2002* (NSW), s 34(1)(a) in respect of *Fair Trading Act 1987* (NSW), s 42.

⁸⁶ *Trade Practices Act 1974* (Cth), s 87D in respect of liability under s 87 of that Act.

⁸⁷ Particularly under SA legislation. In NSW, ACT, NT, Tasmania, Victoria and WA, the action must be based on a failure to take reasonable care. In Queensland the action must be based on a breach of duty. However, if liability is in truth statutorily based, *Dartberg Pty Ltd v Wealthcare Financial Planning Pty Ltd* (2007) 164 FCR 450; [2007] FCA 1216 suggests that State proportionate liability legislation will not apply to liability under a Commonwealth statute.

⁸⁸ Such as *Limitation Act 1969* (NSW), s 14(1)(b), which refers to a cause of action founded on tort. That Act, as with most State limitations acts, provides for a suspension of the limitation period in certain circumstances.

⁸⁹ *Limitation Act 1969* (NSW), s 26 provides a two-year limitation from the date of judgment. Query the application of legislation designed to protect employees, such as the *Employees Liability Act 1991* (NSW), s 3 in the case of an executive director.

⁹⁰ *Civil Law (Wrongs) Act 2002* (ACT), s 20; *Law Reform (Miscellaneous Provisions) Act 1946* (NSW), s 5; *Law Reform (Miscellaneous Provisions) Act 1956* (NT), s 12; *Law Reform Act 1995* (Qld), s 6; *Law Reform (Contributory Negligence and Apportionment of Liability) Act 2001* (SA), s 12; *Wrongs Act 1954* (Tas), s 3; *Wrongs Act 1958* (Vic), s 23B; *Law Reform (Contributory Negligence and Tortfeasors' Contribution) Act 1947* (WA), s 7.

⁹¹ What is demonstrated by *Thompson v Australian Capital Television Pty Ltd* (1996) 186 CLR 574 is that because defamation is a common law tort (rather than just being called a tort) the legislative amendments to tort law applied. *Wah Tat Bank v Chan Cheng Kum* [1975] AC 507 suggests that such provisions would apply to the liability of directors as joint tortfeasors, but the primary liability of the company was in conversion, rather than a statutory infringement.

⁹² *XL Petroleum (NSW) Pty Ltd v Caltex Oil (Australia) Pty Ltd* (1985) 155 CLR 448.

respect of the intellectual property rights that allow for additional damages,⁹³ this leads to the difficult question of whether additional damages against a director and the company determined separately. In cases where additional damages cannot be awarded against the company, can the director be liable for exemplary damages pursuant to the common law rules applying to intentional torts?

These problems may not arise often. However, if parliament had intended directors to be liable for a trade mark and design infringement, presumably they would have provided for it, and liability could be determined according to the statute without any tension with State laws. However, when courts borrow a term of common law and use it in relation to a system of federal statutory liability, they are engaging in law reform. This particular law reform was introduced without proper regard for the complexities of tortious and other civil liability, which are regularly reviewed and adjusted by Parliament.

Inconsistent tests

It is important to distinguish between liability as a joint tortfeasor and liability for authorisation.⁹⁴ Cases that conflate the tests are not helpful.⁹⁵ However, those situations where the director may be concurrently liable under the statute and in tort⁹⁶ highlight further difficulties.

Employing some of the tests formulated for tortious liability of directors would make those directors liable in tort when they would not be liable for authorisation under the “sanction, approve and countenance” test for authorisation.⁹⁷ Such an outcome would be hard to reconcile with the express legislative requirement that a third party “authorise” the infringement,⁹⁸ and adds weight to the case for a narrow test for tortious liability.

If, contrary to the primary position taken in this article, there is a justification for directors being liable as joint tortfeasors where Parliament has provided liability for authorisation, there are strong policy considerations in favour of a harmonisation of the two tests. Recent trends in authorisation cases⁹⁹ are towards a stricter approach to the requirements of authorisation. It is hard to see any justification for the application of tort principles to give rise to an inconsistent test, and an independent and less onerous test, pursuant to which directors may be held to be liable.

Asian Performing Right Association Ltd v Metro on George Pty Ltd (2004) 61 IPR 575; [2004] FCA 1123 is an interesting example of the interplay between statutory liability for authorising conduct and the notion of joint tortfeasors. In that case, Metro on George sought to avoid having a venue licence from APRA by relying on the various licences that promoters had. However, in respect of the performances where the promoters did not have an appropriate licence, Metro on George was found to have authorised the infringement within the meaning of s 36 of the *Copyright Act 1968* (Cth). One of the directors of Metro on George, but not the other, was held liable as a joint tortfeasor.¹⁰⁰ The decision amounts to a finding that a director has part of a common design under which the company was not a “tortfeasor” but authorised someone else to infringe copyright. The case illustrates how the use of the doctrine of joint tortfeasance extends liability well beyond that provided for in the statute.

⁹³ *Copyright Act 1968* (Cth), s 115(4); *Patents Act 1990* (Cth), s 122(1A); *Designs Act 2003* (Cth), s 75(3); *Circuit Layouts Act 1989* (Cth), s 27(4).

⁹⁴ *Asian Performing Right Association v Jain* (1990) 26 FCR 53; 18 IPR 663 (Shepherd, Foster and Hill JJ).

⁹⁵ Such as *Kalamazoo v Compact Business* (1985) 84 FLR 101; 5 IPR 213.

⁹⁶ *Asian Performing Right Association v Jain* (1990) 26 FCR 53; 18 IPR 663. Dr Appanna was held to be liable both for authorising the infringement of the patent under *Patent Act 1990* (Cth), s a3, and as joint tortfeasor in *Inverness Medical Switzerland GmbH v MDS Diagnostics Pty Ltd* (2010) 85 IPR 525; [2010] FCA 108.

⁹⁷ *Adelaide Corp v Asian Performing Rights Association Ltd* (1928) 40 CLR 481 at 491; *University of New South Wales v Moorhouse* (1975) 133 CLR 1.

⁹⁸ Conversely, in *WEA International Inc v Hanimex Corp* (1987) 17 FCR 274; 10 IPR 349, Gummow J thought that the existence of liability may be an argument in favour of a narrower construction of the word “authorise” in the Act.

⁹⁹ *Roadshow Films Pty Ltd v iiNet Ltd (No 3)* (2010) 263 ALR 215; 83 IPR 430.

¹⁰⁰ Although Bennett J appeared to be considering whether the director himself authorised the infringement (in addition to the company) her Honour cited the authorities commonly cited in connection with joint tortfeasor liability.

Two different tests for liability?

Perhaps a director can be liable for directing a company to commit a tort even where there is no joint enterprise.¹⁰¹ Some judges have suggested that, under the law of tort, there are two independent tests for liability; directing another to commit a tort and participation in a joint enterprise.¹⁰² The correctness of such a proposition is doubtful because it would widen the scope of directorial liability by allowing a plaintiff to satisfy either a directed or procured test or some other test that recognised the separate legal identity of the company. The debate on the appropriate test in Australian courts has largely proceeded on the basis that there should be only one test.¹⁰³

However, even if there is only one test for the liability of directors who act jointly with their companies, directors who personally commit all of the elements of the infringement¹⁰⁴ may fall into a different category. In *Unilever plc v Gillette (UK) Ltd* [1989] RPC 583, Mustill LJ suggested that this was the true meaning of making the tort their own when he described “whether those persons had committed individual wrongs for which they were individually liable” (at 608).¹⁰⁵ Lindgren J in *Auschina*,¹⁰⁶ held that the director was, alone, totally responsible for all of the elements of the infringement provided for in ss 37 and 38 of the Act which rendered the company liable, and by reason of this, he too was liable. *Auschina* has been described as a case where a director was held liable for his own tort rather than as joint tortfeasor,¹⁰⁷ but it seems likely that something more than just infringing conduct is required. Emmett J spoke in *Keller* of the need for deliberately making use of a company as an instrument whereby an infringement is perpetrated, so as to hide behind the corporate veil,¹⁰⁸ an approach which finds support in the early cases.¹⁰⁹

This issue deserves particular focus when looking at the liability of employees that are not directors. They will regularly carry out all of the elements of the tortious act, perhaps under instruction, but it would seem odd that it would automatically lead to personal liability. In *Keller*,¹¹⁰ Jessup J thought that employees in a subordinate role should be the subject of the same “making the tort his own” test, so that they would not be liable for duties carried out in good faith in the discharge of their duties to the company. His Honour noted that arguably an employee could never be liable under the *Performing Right Society* test. That was the result in *Asian Performing Right Association Ltd v Myles* [1965] NSW 405; (1961) 3 FLR 146 at 147, where Jacobs J cited *Performing Right Society* in support of a proposition that no relief should be granted against an employee even though they did acts of infringement of copyright on behalf of their employer. If there is to be a separate test

¹⁰¹ In *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [270]; 87 IPR 1, Besanko J described three categories of joint tortfeasor.

¹⁰² *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [404]; 87 IPR 1 (Jessup J); *Unilever plc v Gillette (UK) Ltd* [1989] RPC 583 at 603, 608 (Mustill LJ).

¹⁰³ Borrowdale A, “Liability of Directors in Tort – Developments in New Zealand” [1998] Jnl of Business Law 96. Grantham and Ricketts, “Directors’ ‘Tortious’ Liability: Contract, Tort or Company Law?” (1999) 62 Mod L Rev 133; Farrar J, “Bypassing the Corporate Veil” (1999) 19(2) *Proctor* 22. Wishart D, “The Personal Liability of Directors in Tort” (1992) 10 CSLJ 363; Anderson H, “The Theory of the Corporation and its Relevance to Directors’ Tortious Liability to Creditors” (2004) 16 Aust Jnl of Corp Law 73.

¹⁰⁴ Albeit in the course of directorial duty, such as standing at the photocopier.

¹⁰⁵ See also *Belegging-en Exploitatienschaapjij Lavender BV v Witten Industrial Diamonds* [1979] FSR 59 at 66 (Buckley LJ).

¹⁰⁶ *Microsoft Corp v Auschina Polaris* (1996) 71 FCR 231; 36 IPR 225.

¹⁰⁷ *Sydneywide Distributors Pty Ltd v Red Bull Australia Pty Ltd* (2002) 55 IPR 354 at [160]; [2002] FCAFC 157 (Weinberg and Dowsett JJ).

¹⁰⁸ *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [84]; 87 IPR 1.

¹⁰⁹ Professor Farrer spoke of an abuse that justified piercing the corporate veil: Farrer J, “Bypassing the Corporate Veil” (1999) 19(2) *Proctor* 22 at 23, in respect of early English cases like *Rainham Chemical Worlds Ltd v Belvedere Fish Guano Co* [1921] 2 AC 465 at 476, 488; *British Thomson-Houston Co Ltd v Sterling Accessories Ltd* [1924] 2 Ch 33; (1924) 41 RPC 311; *Pritchard & Constance (Wholesale) Ltd v Amata Ltd* (1925) 42 RPC 63.

¹¹⁰ *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [407]; 87 IPR 1.

for liability where a person does all the elements of infringement on behalf of the company, it would have to grapple with the different position of employees and directors, as well as the concept of the separate corporate entity.¹¹¹

THE APPROPRIATE TEST

In arriving at an appropriate test, it is instructive to call to mind binding and highly persuasive authority. There is clear authority that liability as a joint tortfeasor requires a concurrence in the acts causing damage¹¹² and there must be a “common design”.¹¹³ Final courts of appeal have said that care needs to be exercised when using tort to make a director liable for acts done on behalf of the company. They must at least become an actor in invading the plaintiff’s rights¹¹⁴ and must either exceed his or her corporate authority as a director so as to communicate that the director assumed personal responsibility,¹¹⁵ or *expressly* direct the conduct complained of.¹¹⁶ If a “procuring” approach is taken, the director must both intend and procure the infringement, and take part in a common design.¹¹⁷

The only recent articulation of the test for liability of a director that grapples properly with these principles is that of Jessup J in *Keller*. It is arguable that, given the similar reasons of Emmett J, there is a binding Full Court authority as to the proper approach, if not the proper test. The conduct must be conceptually distinct from that of the company, so that the director will not be liable if the acts done are done in good faith in reasonable belief that those acts are in the interests of the company. It is only then that a director can be said to make the tort his or her own. In the author’s view, that is the only test that grapples appropriately with the notion of a separate corporate entity.

CONCLUSION

In determining whether or not a person is liable under an intellectual property statute, the starting point must be the statute.¹¹⁸ The imposition of liability in the absence of express provision for directorial liability is a step that warrants close attention. A close analysis of the history of applying the doctrine of joint tortfeasorship to directors in cases of statutory intellectual property infringement reveals a remarkably thin basis for taking that step, and a failure to deal with or reconcile major problems caused by taking that step. Key problems with taking that step include the extent to which parliament has allowed for directors to be liable for authorisation for some infringements and not others; the fact that the application of joint tortfeasor doctrines may give rise to a separate head of liability that falls to be determined on a completely different test; and the fact that merely being a “civil wrong” does not provide a solid basis for importing a common law doctrine so as to extend liability under a set of purely statutory regimes for liability. The tension with the notion of a company being a separate entity, tensions with existing laws relating to torts and logical problems that flow from applying the same reasoning of other situations, all point towards a need to reconsider whether joint tortfeasor liability can exist for directors of companies that infringe purely statutory intellectual property rights.

¹¹¹ However, depending on the facts, the liability of a director or employee who does all of the acts of infringement could be reconciled with the approach of all three members of the Full Court in *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499; 87 IPR 1.

¹¹² *Thompson v Australian Capital Television Pty Ltd* (1996) 186 CLR 574 (Brennan CJ, Dawson and Toohey JJ; Gummow J; Gaudron J generally agreeing).

¹¹³ *CBS Songs Ltd v Amstrad Consumer Electronics plc* [1988] AC 1013.

¹¹⁴ *O’Brien v Dawson* (1942) 66 CLR 18 at 32 (Starke J).

¹¹⁵ *Williams v Natural Life Health Foods Ltd* [1998] 1 WLR 830 at 838; [1998] 2 All ER 577 (Lord Steyn).

¹¹⁶ *Rainham Chemical Works Ltd v Belvedere Fish Guano Ltd* [1921] AC 465 (Lord Buckmaster).

¹¹⁷ *CBS Songs Ltd v Amstrad Consumer Electronics* [1988] AC 1013.

¹¹⁸ In *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [308]; 87 IPR 1, Jessup J described a “literal interpretation of the section” as a more jurisprudentially convincing approach. However, in *WEH International Inc v Hanimex Corp* (1987) 17 FCR 274; 10 IPR 349, Gummow J put the matter somewhat the other way around by suggesting that the availability of liability of directors as a joint tortfeasor might be a basis for a narrower interpretation of the word “authorise” in the *Copyright Act 1968* (Cth).

If there is a basis for retaining the application of joint tortfeasorship to directors in statutory intellectual property cases, then the decision of Jessup J in *Keller* goes a long way towards addressing the fundamental problem of the company as a separate legal entity. This is because his Honour's approach gives a proper and appropriate limit to the liability for directors acting within their constitutional role.

However, many aspects of the application of joint tortfeasorship to statutory intellectual infringements remain completely unsettled. In particular, there remains real uncertainty about whether there is a separate head of liability for directing the company to commit a civil wrong, and whether a director will always be liable where they personally do all the acts that comprise the infringement.¹¹⁹ These issues should be resolved consistently with the reasons of Jessup J in *Keller*.

¹¹⁹ See *Keller v LED Technologies Pty Ltd* (2010) 185 FCR 499 at [401]; 87 IPR 1 (Jessep J with the example of a car hitting a pedestrian).

