

Law and Order IP Unit: Sentencing considerations for intellectual property criminal offences in *Ly v The Queen* [2014] FCAFC 175

It's not every day that an IP Blog can run a story that begins with multiple AFP raids and seizures to enforce the Copyright Act! Yet, this is exactly how it all began for Mr Phong Ly who brought and lost this appeal, a criminal IP matter which we couldn't miss the chance to blog about.

This was an appeal from the sentencing judgment of the County Court of Victoria (*DPP v Ly* [2014] VCC 1514), which provides a recent insight into the relatively quiet domain of intellectual property criminal prosecutions. Whilst the case provides detailed discussion of the jurisdictional questions under Section 132AJ of the Copyright Act, Section, 148(1) of the *Trade Marks Act 1995 (Cth)* and Section 30AA(1)(b) of the *Federal Court of Australia Act 1976 (Cth)* ("Federal Court Act") in granting leave to appeal, the substantive issues concerning the grounds of appeal provide some interesting insights into sentencing considerations and the nature of the criminal penalties with respect to infringements under the Copyright Act and Trade Marks Act. Whilst leave to appeal was granted, the appeal was ultimately rejected.

The facts of this case revolve around the arrest and conviction of Mr Phong Ly (the Appellant) as sole director and shareholder of Quoc Phong DVD World Pty Ltd ("DVD World") operating a DVD shop in Springvale South. The arrest was made following executed search warrants at the DVD World Shop, the Appellant's home and another DVD World Shop located at Noble Park ("the Noble Park Shop") by way of which the Australian Federal Police (AFP) seized a total of 61,000 discs, some 55,000 of which the Crown claimed were counterfeit copies of films, music recordings and computer games. The AFP also seized 2 computers towers and seven DVD burners. The charges brought against the Appellant were therefore:

1. Breach of Section 132AJ (1) of the Copyright Act: possession of an infringing copy (of a copyright work or other subject matter) for commerce.
2. Breach of Section 148 (1) of the Trade Marks Act: sale or exposure for sale of goods under a false trade mark whereby the registered trade mark or a sign substantially identical to the registered trade mark is used without the permission of the registered trade mark owner or authorised user.

Both are indictable offences, each carrying a penalty of 5 years imprisonment or 550 penalty units, or both.

The Appellant entered a guilty plea and was sentenced to a total of 12 months imprisonment in respect of the first charge and 8 months imprisonment in respect of the second charge, the sentences running concurrently and pending release pursuant to a recognizance release order after 8 months.

The Appellant challenged the sentence on appeal. A total of eight grounds were raised, the more substantial and thereby relevant of these grounds are discussed in turn under the topics raised by the grounds.

1. What factors can be taken into account in construing the offence for sentencing purposes? (The Appellant's Third Ground)

The Appellant contended that, contrary to the principles in *The Queen v De Simoni* (1981) 147 CLR 383 (*De Simoni*), the sentencing judge aggravated the sentence based on the presence of devices for burning, copying and editing of CDs, DVDs and Blu-Ray discs at the DVD World Shop and the Appellant's home, and the Appellant's admission of copying, and/or the Appellant's admission of having sold the counterfeit discs for profit.

The Federal Court rejected this ground noting that the sentencing judge did not punish the Appellant for the offences contained in the circumstances, but with which the Appellant was not charged, namely Section 132AL (making or possessing a device for making an infringing copy) or 132 AD (making an infringing copy commercially) of the Copyright Act or Section 148(1)(a)(i) of the Trade Marks Act (selling goods with false trade marks).

These facts were only referred to by the sentencing judge to contextualise the charged offences (as a commercial enterprise) – particularly relevant given the element of intention to sell in Section 13AJ(1). The reference however did not of itself mean that there was in fact consideration of these circumstantial facts in the determination of the sentence.

Whilst the principles in *De Simoni* disallow consideration of circumstances that would have warranted conviction for a more serious offence, the principles do not vary or

preclude the consideration of circumstances in establishing the context of the charged offences.

2. Can consent to destruction of copyright infringing materials be considered remorse?
(The Appellant's Sixth Ground)

The Appellant contended that the sentencing judge erred by failing to take into account as evidence of remorse that the Appellant did not oppose the prosecution's application for a destruction order for the discs and computer equipment seized by the police. The Federal Court noted that although the prosecution had conceded that mitigation is due in respect of the cooperation, this factor cannot be given substantial weight considering the fact that the DVDs would have to be destroyed regardless of consent, under Section 133 of the Copyright Act which provides for the destruction of infringing copies of copyright materials upon charges being laid for an offence under Division 2A of the Copyright Act. The Federal Court's observation here seems to suggest that in such cases, the consent to destruction will not be given significant weight in considering remorse, which may therefore need to be established upon other factors.

3. Determination of the sentence and whether a sentence is manifestly excessive? The
(Appellant's Eighth Ground)

The Appellant argued that the sentence and recognizance release period are manifestly excessive in light of:

- i. The fact that whilst the charges were representative of similar conduct, the actual charges related to a much reduced total of discs: 1,040 discs (charge 1) and 175 discs (charge 2).
- ii. The Appellant being the first person in Victoria to be sentenced on these offences to a term of immediate imprisonment
- iii. The fact that there were three NSW cases referred to by the prosecution and these related to more numerous and serious charges than in the present case, and, of these three cases, only one resulted in a term or immediate imprisonment.
- iv. The Appellant having pleaded guilty at every stage, and cooperated with the police.
- v. The sentencing judge expressing moderate optimism about the Appellant's prospects for rehabilitation under the positive influence of his partner.

The Court rejected the arguments and noted as follows:

To succeed in establishing the sentence as manifestly excessive, it should be demonstrated that the sentence is “wholly outside the range of sentencing options available” (*DPP v Karazisis* (2010) 31 VR 634 (*Karazisis*)).

The legislated penalty of up to five years imprisonment conveys the objective seriousness of these offences, and as explained in *Vu v NSW Police Service* (2007) 73 IPR 531, such offences are in effect offences of dishonesty amounting to stealing of property of others. The need for general deterrence is therefore particularly acute here. The fact that the Appellant had prior convictions for essentially the same offending conduct pointed to the need for a sentence reflecting special deterrence and condign punishment.

The Federal Court upheld the sentencing judge’s considerations in sentencing and noted that as the offences were representative they were contextualised as being part of a substantial commercial enterprise being conducted by the Appellant. As each charge was a rolled up charge involving many infringing DVDs, the Appellant’s conduct arguably fell within the more serious end of the spectrum of offences of this type. The conduct could be construed as deliberate, flagrant and motivated by substantial profits.

A useful summary of the considerations in sentencing for the offences under Section 132AJ (1) of the Copyright Act and Section 148 (1) of the Trade Marks Act was also provided in the sentencing remarks upheld by the Federal Court. The considerations are:

1. The importance of general deterrence in sentencing for such offences as well as specific deterrence in light of any prior convictions;
2. The wider context of the offences in which deliberate, calculated and commercial nature are aggravating factors
3. Evidence of genuine remorse – not found in relation to grant of consent to destruction of infringing copies given the application of Section 133 of the Copyright Act;
4. Early guilty plea – which was here relevant as a mitigating factor;
5. Character, age, means and physical and mental condition of the offender.

Ultimately, the outcome here reveals the seriousness with which intellectual property criminal offences can be treated. Noting the relatively infrequent instance of criminal prosecutions in this area and the importance that the courts have given to general and specific deterrence, a stringent approach may yet again characterise sentencing in future prosecutions.