

**COPYRIGHT DAMAGES NEED TO HAVE A SUFFICIENT PUNITIVE ELEMENT
TO SUCCESSFULLY DETER INFRINGEMENT**

SUBMITTED BY JANE HELENA SUSAN FOULSER-MCFARLANE

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Dedication

This thesis is dedicated to my beloved parents, William (Bill) Foulser and Jane Foulser, who sadly passed away within seven months of each other while I was undertaking this research. I will always regret the fact that they could not live to see it completed. I hope that it would have made them proud.

Acknowledgments

First and foremost, I would like to thank my parents for their love and support throughout my life, which eventually led to this work being completed. I deeply regret that they did not live to see me complete what I consider to be my greatest achievement.

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Abstract

Enforcement issues have been very much to the fore in recent years, with increasing emphasis on the need to deter infringing conduct. This thesis will concentrate on the provisions relating to damages, as set out in section 97 of the Copyright, Designs and Patents Act 1988 (CDPA 1988) and will consider the research question, which is whether those provisions contain a sufficient punitive element to successfully deter copyright infringement. The thesis will initially set out the conceptual framework, which identifies the issues that arise with compensation only damages, then go on to consider the purpose and effect of punitive damages as a deterrent. It will also consider the concept of deterrence. The research explores the international framework that governs an award of copyright damages, to include the TRIPS Agreement and the Trade and Cooperation Agreement 2020, as well as any potential Free Trade Agreements (FTA's) that already apply, or which may apply to the UK following Brexit. The provisions of the Enforcement Directive 2004/48/EC will be explored in some detail. There will be an analysis of the existing domestic framework of compensatory damages in the UK, followed by consideration of the existing framework of punitive damages. By comparison, it will be exploring the availability and application of punitive damages in Australia and the United States and finally, it will address the human rights issues which arise from the chilling effect on free speech by the application of punitive damages in that context. The work has doctrinal legal research as well as comparative methods, which have focused upon the existing law and whether and to what extent, either the US or Australia can provide appropriate guidance for a reform of section 97 of the CDPA 1988. The conclusions will show that the UK should explicitly provide for the availability of punitive damages, as they are necessary to deter copyright infringement, but also that any punitive provisions could be clearly set out in the legislation, along with the clear guidance as to their application. The findings of this research may provide a normative basis for reform of the damages provisions for copyright infringement in the UK and will therefore constitute a contribution to knowledge.

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Introduction

This thesis seeks to answer the Research Question, which is *whether copyright damages need to have a punitive element to successfully deter infringement*. In the UK, the basis for an award of damages for copyright infringement is that copyright is a property right and damage to that property by way of infringement of that right, leads to an award of damages.

The relevant statutory provision – Section 97 CDPA 1988

The law is set out in section 97 of the Copyright, Designs and Patents Act 1988 (CDPA 1988). This provision states that:

- (1) Where in an action for infringement of copyright it is shown that at the time of the infringement, the defendant did not know and had no reason to believe, that copyright subsisted in the work to which the action relates, the Plaintiff is not entitled to damages against him, but without prejudice to any other remedy:*
- (2) The court may in an action for infringement of copyright, having regard to all the circumstances and in particular to (a) the flagrancy of the infringement and (b) any benefit accruing to the defendant by reason of the infringement, award such additional damages as the justice of the case may require.*

Under section 97(2) the concept of punitive damages is described as *Additional Damages*, however, there is no specific reference to punitive damages or any normative basis for them being awarded. Punitive type damages may reasonably be expected to be awarded when the copyright infringement has an intentional element and/or is sufficiently serious to warrant an ‘additional’ award which exceeds the basic compensatory award for the right holder’s loss. Section 97(1) does not permit basic or simple damages to be awarded in the absence of the requisite knowledge (knowing or having reason to believe that copyright subsisted in the work to which the action relates) as it essentially provides a defence to a claim for damages for actual loss,

although additional damages appear to be available under section 97(2) in the absence of the requisite knowledge. Additional or punitive awards should reasonably be available to reflect the infringer's intent and the way in which the infringement was undertaken. As this research will show, the courts in the UK have been increasingly willing to make awards of punitive damages, but there remains a lack of normative basis for such awards and the circumstances where they are appropriate. When additional damages are awarded, there are no suitable guidelines for the amount of such awards and in the absence of such guidelines it falls to the courts to assess the appropriate level of damages without reference to any scale that would reflect the level of culpability of the infringer. Such guidelines would help to promote punitive damages as a useful tool to deter copyright infringement, because the awards would be balanced and would reflect the relevant factors that are important, with the highest level of awards being applicable to the most heinous infringement and the lower levels reflecting a more negligent, or 'could not care less' approach by the infringer. The research considers why the appropriate deterrence to copyright infringement is important as reflected in a punitive element within an award of damages.

Background

A report prepared in 2009 for the Forum on the Economic Value of Intellectual Property¹ concluded that the enforcement and litigation phase may look like a small element of the overall equation in the perpetual quest for balance, but no matter which type of intellectual property (IP) is concerned, enforcement and litigation will have decisive leverage for the performance of the whole system.² Enforcement issues have been very much to the fore since 2006, with considerable debate taking place as to whether the remedies provided by current legislation actually act as a deterrent to copyright infringement. William Patry has examined whether the deterrents provided by penalties prevent infringement and he concluded that they largely do not. He states 'What level of deterrent works? That is the only question that should be asked.'³

¹ Dietmar Harkoff, Challenges Affecting the Use and Enforcement of Intellectual Property Rights: A Report Prepared for the Forum on the Economic Value of Intellectual Property (IPO 10 June 2009).

² Harkoff, (n 1) 18.

³ William F. Patry, How to Fix Copyright (OUP 2013) 13.

Conversely, the Gower's Review of 2006⁴ supported stronger enforcement of IP rights and in 2011, Professor Ian Hargreaves conducted an extensive review of IP and economic growth,⁵ in which he stated that IP rights cannot succeed in their core economic function, incentivising innovation, if rights are disregarded as ineffective rights are worse than no rights at all.⁶ He concluded that many responses to his 'call for evidence' on infringement identified the issue of enforcement as the most serious weakness in the UK's IP framework.⁷ This thesis will seek to argue that within the context of civil penalties, the existing framework for the awarding of damages does not contain a sufficient punitive element to deter infringement and that the legislation should explicitly provide for the availability of a punitive element within an award of damages, as well as guidelines for their application.

The basis for an award of damages in the UK is by way of a statutory tort.⁸ The assessment of damages for economic torts provides that as a general rule the award of damages is to put the injured party back in the position that he would have been, had the tort not occurred, with the two main principles being (a) that the plaintiff has the burden of proving his loss and (b) as the defendant is the wrongdoer, damages should be assessed liberally, bearing in mind that the object is to compensate the plaintiff, (or the claimant), not punish the defendant.⁹

The thesis will consider the 'compensation only' principle and will explore why it is insufficient as a deterrent to copyright infringement, which has become more prolific¹⁰ since the internet has enabled piracy to occur at all levels. It can be argued on that basis, that copyright holds a *sui generis* position in relation to the availability of remedies. Copyright does not share the same features as physical property and is non

⁴ Andrew Gowers, *Gowers Review of Intellectual Property* (The Stationary Office 2006) 4 (*Gowers Review*)

⁵ Professor Ian Hargreaves, *Digital Opportunity: A Review of Intellectual Property and Growth: An Independent Report* (Intellectual Property Office 2011) (*Hargreaves Review*).

⁶ Hargreaves Review (n 5) 8.1

⁷ Hargreaves Review (n 5) 8.2.

⁸ *Main-Line Corporate Holdings Ltd v United Overseas Bank Ltd* [2010] 1 SLR 189 [18].

⁹ *General Tyre & Rubber Co v Firestone Tyre & Rubber Co*, [1975] 1 WLR 819, HL.

¹⁰ Intellectual Property Office, *Online Copyright infringement Tracker (March 2017) (7th Wave)* (IPO 2017/01)

http://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/628704/OCI_tracker-7th-wave.pdf.

rivalrous as the use of an idea does not impose any cost on another user and one cannot easily exclude others.¹¹ Punitive damages have also been described as *sui generis* in nature.¹² The concept of a punitive element in the application of damages for intellectual property infringement is not a new one. Other jurisdictions such as the US and Canada, allow their courts to award damages based upon a straightforward monetary scale or a multiple of the legitimate retail price. In 2007, the Department for Constitutional Affairs (DCA) published a Consultation Paper on The Law of Damages,¹³ which was responded to by the Alliance Against Intellectual Property Theft (AAIT).¹⁴ They requested that the Government should recognise that civil actions play a valuable role in regulating conduct which is contrary to the public interest and to acknowledge that the existing out of date regime for assessing damages fails to discourage counterfeiting and piracy, or to protect the UK's vital creative economy. The AAIT wanted to see the UK follow the lead of other countries and to introduce *statutory* or *pre-established damages*. It also wanted to see the CDPA 1988 amended to explicitly allow the court to order *exemplary* or *aggravated damages*, or both. The AAIT took the view that deterrent damages are necessary to create an environment in which creative industries can flourish and that the UK needs to provide for the making of civil damages that serve as a visible deterrent to the many thousands of infringers that breach copyright and trade mark laws with apparent impunity.¹⁵

Sir Robin Jacob, an experienced former IP judge, has been vocal about the fact that people underestimate just how powerful the civil law is, as the details of the case will always lie with the owners of the copyright, who are in the best position to find the pirates, with the civil courts moving much faster than the criminal courts.¹⁶ Sir Robin was of the view that criminal enforcement had never been very successful and he was not in favour of it at all.¹⁷ However, in the UK courts, additional damages for copyright

¹¹ Mark A. Lemley, *What is Different About Intellectual Property?* (2005) 83 Tex. L.Rev. 1097, 1099.

¹² *Phonographic Performance Ltd v Ellis (t/a Bla Bla Bla)* [2018] EWCA Civ 2812; [2019] Bus. L.R. 542; [2018] 12 WLUK 284 (CA (Civ Div)).

¹³ The Department of Constitutional Affairs: Justice, Rights and Democracy: The Law on Damages, Consultation Paper, CP 9/07, (DCA Consultation Paper 2007). (DCA Consultation Paper).

¹⁴ Alliance Against Intellectual Property Theft (AAIT): Response to "The Law on Damages Consultation", July 2007. (AAIT Report).

¹⁵ AAIT Report, (n 14) 4, 6.

¹⁶ Parliamentary Business, Innovation and Skills Committee, Minutes of Evidence, HC 67-01 (18 October 2011) (Sir Robin Jacob)

¹⁷ Parliamentary Business, Innovation and Skills Committee (Sir Robin Jacob) (n 16).

infringement have been unclear in their normative base and inconsistent in when they have been awarded, with esoteric assessments on quantum. Whilst such vagueness might be seen as permitting individualised and fair settlements, tailored to the very specific circumstances of the case, it also makes settlement and more recently, allocation, a difficult and uncertain matter.¹⁸ Damages awarded for putting the right holder back in the position that they would have been, but for the infringement, provides little or no deterrent, as it could result in the infringer just paying for the licence that they should have had in the first place; the *compulsory licence*. It was argued by the AAIT that if infringers were faced with the real possibility of pre-established or statutory damages, such as the full retail price or some multiples of that price, it would have an important role in deterring the infringement, thereby removing the incentive to infringe.¹⁹ The AAIT supported the introduction of exemplary damages²⁰ and cited section 128(3) of the Irish Copyright and Related Rights Act 2000, which provides that the court may award aggravated or exemplary damages or both, as an example of legislative clarity. The Government's Consultation Paper²¹ did not support the introduction of exemplary damages in cases of IP infringement, considering that the function of exemplary damages was more appropriate to the criminal law²² as the aim of civil damages is to provide compensation and not to punish the defendant and they blur the distinction between civil and criminal law.

The Crime and Courts Act 2013, took a step forward and it sets out the basis for an award of exemplary damages in claims against publishers of news related material.²³ It restricts the circumstances in which exemplary damages may be awarded against 'relevant publishers' in relation to claims for libel, slander, breach of confidence, misuse of private information, malicious falsehood and harassment. Where such damages are appropriate, they may be awarded where the defendant's conduct has shown a deliberate or reckless disregard of an outrageous nature for the claimant's rights and the conduct is such, that the court should punish the defendant for it and

¹⁸ Phillip Johnson, 'Compounding Uncertainty: The Need for Guidelines for the Assessment of Additional Damages for Copyright Infringement', (2019) IPQ 136.

¹⁹ AAIT Report (n 14) 7, 8.

²⁰ AAIT Report (n 14) 9.

²¹ The DCA Consultation Paper (n 13).

²² The DCA Consultation Paper (n 13).

²³ The Crime and Courts Act 2013, ss 34-36.

other remedies would not be adequate to punish that conduct.²⁴ The exemplary damages have to be claimed²⁵ and the Act specifically excludes the assessment of such damages being assessed by a jury.²⁶ The damages should also not usually be awarded where the defendant has been convicted of an offence involving the conduct complained of,²⁷ thereby avoiding a double punishment situation. Section 36(4) of the Act states that the court may regard deterring the defendant and others from similar conduct as an object of punishment, which is explicit reference to specific and general deterrence.

Section 36 sets out some general guidelines for the assessment of the exemplary damages²⁸ and the court must have regard to those principles. The amount must not be more than the minimum needed to punish the defendant and the amount must be proportionate to the seriousness of the conduct. The court must also take account of the nature and extent of any loss or harm caused by the defendant's conduct, as well as the nature and extent of any benefit the defendant derived from such conduct. These factors are not exhaustive, as the court may take into account any other matters that it considers relevant to its decision.²⁹ The test of the defendant's conduct, under section 34(6) of the Act, as needing to have a deliberate or reckless disregard of an outrageous nature for the claimant's rights, appears to go beyond flagrancy, with reference to outrageousness. The courts will have to use their discretion in the interpretation of 'outrage.' This was first identified in the Law Commission Report on Damages in 1997,³⁰ where it recommended 'the single and general test of deliberate and outrageous disregard of the plaintiff's rights.' The 2013 legislation provides statutory regulation for damages which have been described as a type of damages that are contrary to the basic principle of damages; compensation. In contrast to compensatory damages, they seek to punish and deter a defendant, but not to

²⁴ The Crime and Courts Act 2013, s34(6).

²⁵ The Crime and Courts Act 2013, s34(5).

²⁶ The Crime and Courts Act 2013, s34(8)(b).

²⁷ The Crime and Courts Act 2013, s35(2).

²⁸ The Crime and Courts Act 2013, s36(2) and (3).

²⁹ The Crime and Courts Act 2013, s36(5).

³⁰ The law Commission: *Aggravated, Exemplary and Restitutionary Damages* (Law Com. No. 247, 16 December 1997) para 5.46, (Law Commission Report on Damages).

compensate.³¹ The Act, although limited in scope to specific types of claim relating to the publication of news related material, provides a clear statutory basis for punitive type damages with the aim of deterrence being clearly stated.

While it may be argued that the availability of punitive damages blurs the distinction between civil and criminal law, this is not necessarily the correct view point, as criminal penalties are generally aimed at large scale infringement and civil damages have a significant part to play in the enforcement regime and could provide the court with a generous discretion in their application. The AAIT was strongly against the position set out by the Government in the Consultation Paper, considering that there were many forms of anti-social behaviour which ought to be deterred and prevented, even though they are not crimes and it argued that the blurring of distinctions already exists. It asserted that section 97(2) of the CDPA 1988 allows for the award of additional damages to be assessed, having regard to the flagrancy of the infringement, which is a clear indication of the law seeking to deter illegal behaviour. The AAIT was also in favour of the extension of exemplary damages as a deterrent.³² The Crime and Courts Act 2013 has now recognised the concept of civil punitive damages, or exemplary damages, as a deterrent.

The purpose of this research is to consider the existing law in the UK in relation to damages for copyright infringement, set out in section 97 of the CDPA 1988 and to examine how it is utilised by the court to make an award of damages. It considers this in the context of other legislative instruments, such as Article 13 of the 2004/48/EC Enforcement Directive; the TRIPS Agreement 1994; the Trade and Cooperation Agreement 2020 and other Free Trade Agreements (FTA's), which affect its application. It will also assess the relevant literature.

The thesis will also consider the law in relation to Australia and the US, comparing how those countries deal with punitive damages, in contrast to the UK. The issues with the concept of 'compensation only' damages awards will be considered, along with the

³¹ Vaclav Janecek, Exemplary Damages: A Genuine Concept? [2013] European Journal of Legal Studies, Vol. 6 No. 2, 243, 244, 245.

³² AAIT Report (n 14) 10.

literature on deterrence and punishment, the role of punitive damages in the UK and elsewhere and how they impact upon the role of damages as a deterrent enforcement method. It should be noted in reference to the case law and quotations, that whilst defendants are usually referred to as such, a claimant is the UK term for plaintiff since the introduction of the Civil Procedure Rules in 1998. Reference to pre-1998 case law may describe the claimant as a plaintiff and Australian and US case law continues to do so. Some literature will also reference plaintiff, as opposed to claimant and therefore, some paragraphs may include reference to both terms.

The research will only focus on awards of damages for copyright infringement, rather than other methods of enforcement such as injunctive relief; criminal penalties or ancillary enforcement such as mediation. It will not address the substantive factors of copyright, such as term of protection, exceptions or categories of copyright. The thesis assesses the law as it presently stands in July 2023 and considers if and how the law in the UK should be amended to reflect the requisite deterrent effect.

Methodology

This thesis is based upon doctrinal legal research and comparative methods of analysis. The subject matter, the imposition of civil damages for copyright infringement has gained traction in recent years, as the incidence of intellectual property (IP) infringement, to include copyright, has become increasingly a topic of debate. The proliferation of the internet has appeared to facilitate copyright piracy, with much debate as to how this can be addressed. The internet has allowed society to access material very easily, copyrighted works can be downloaded and disseminated, with commercial scale infringement available to the many rather than the few. When the CDPA was enacted in 1988, there were no smart phones or internet access. However, the legislation has been subject to numerous amendments since 1988 and the legislature could have used these opportunities to update the Act to reflect technological and societal changes, which have highlighted the need to address copyright infringement and the need to consider whether civil damages now need to exceed the mere compensatory principle and explicitly embrace the concept of deterrence. This thesis engages doctrinal legal research, in order to analyse how the existing legislative framework currently addresses these issues and how the law can be improved, with reference to the comparative legal frameworks of Australia and the US, countries which have already explicitly permitted awards of punitive damages. Doctrinal legal research is a predominant method employed by legal researchers, involving rigorous analysis and creative synthesis of multiple doctrinal strands.³³ As a result of the changing values and social mores affecting IP, doctrinal research collaborates with historical, comparative, analytical and philosophical methods of research.³⁴ The relevance of comparative research permits a comparative evaluation of human experience occurring in the legal systems of Australia and the US, involving a logical and inductive method of reasoning, with its value being that it brings out the advantages and disadvantages of the alternative approaches, procedures and institutions.³⁵ The legal system in Australia is very similar to that of the UK, with the

³³ P. Ishwara Bhat, *Ideas and Methods of legal Research* (OUP 2020) 143-168.

³⁴ Bhat, (2020) (n 33).

³⁵ Bhat, (2020) (n 33) 267-299.

judiciary generally awarding damages for IP infringement. The system in the US is jury based, with the jury being permitted to make awards of punitive damages. This can lead to excessive awards which could not always be described as proportionate or reasonable and which highlights the need to introduce appropriate guidelines applicable to the making of punitive damages awards. The benefit of using the comparative law in these jurisdictions, is that there are no great differences in language or culture which could be an impediment to the assessment of the application of punitive damages.

The thesis begins by considering the conceptual framework for the analysis, starting with the idea of the 'compensation only' principle as a basis for an award of damages for copyright infringement in the UK, which is derived from case law. The basis of compensation will be analysed, which includes damages by way of royalty payments, accounting for profits and the user principle. The issues that arise, such as the level of cost and time incurred in proving the extent of the right holder's loss will be explored, in addition to the reasons why it is considered that such damages do not constitute a deterrent. Thereafter, the thesis will assess what constitutes deterrence by exploring the literature on the subject. It will also explain what is meant by general, specific and marginal deterrence and how it can be applied to an award of damages for copyright infringement, so that the damages do constitute a deterrence.

Following this introductory framework, the research will focus on the international legal framework that the UK has to apply when setting legislation for copyright infringement and this will include not only the minimum international standard of the TRIPS Agreement, but also more recent international treaties that the UK is now a signatory to, such as the Trade and Co-operation Agreement 2020 (TCA 2020) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership 2018 (CPTPP).³⁶ Even though the UK has legislated for Brexit, it remains heavily influenced by European law, such as the Enforcement Directive 2004/48/EC, which has had

³⁶ The Comprehensive and Progressive Agreement for Trans-Pacific Partnership 2018 (CPTPP), 8 March 2018 [2018] ATS 23, (signed by the UK on 16 July 2023) (CPTPP); The Trade and Cooperation Agreement Between the European Union and the European Atomic Energy Community of the One Part, and the United Kingdom of Great Britain and Northern Ireland, of the Other Part (December 30 2020, entered into force 1 May 2021) UKTS 2021 No. 8 O.J. 2021 L149/10 (TCA 2020).

considerable impact upon the assessment of damages for IP infringement by the application of Article 13, the provisions of which remain almost unchanged in practice, under the terms of the TCA 2020. The thesis will consider the ongoing effect of EU law on any reform.

The research has, by necessity, focused on the existing system of compensatory damages in the UK and this is explored in depth. Thereafter, there is an assessment of the current UK framework of punitive damages, in the form of additional and exemplary damages and how the judiciary in the IP courts have moved towards a *sui generis* concept of awarding damages for copyright infringement, which can be wholly or partly punitive. The theme of punitive damages is followed by a comparative analysis of punitive damages in Australia and the US and in particular, how the system in Australia can offer guidance for the UK.

Finally, the research explores the human rights considerations that are inherent in making provisions for punitive damages in UK legislation. As an illustration, the thesis focuses on the right to freedom of expression under Article 10 of the European Convention for Human Rights (ECHR) and how punitive damages can have a chilling effect on that freedom.

The thesis concludes with answers as to whether copyright damages need to have a punitive element in order to successfully deter copyright infringement and the research leads to the answer that this is necessary, making an assessment the reasoning behind this conclusion. The thesis also seeks to identify a solution in the form of recommendations and potential amendments to the CDPA 1988, which involve the appropriate use of guidelines to assist the court in the application of punitive damages. Having taken into account the literature and theories on deterrence in the very specific context of punitive damages for copyright enforcement, the thesis has moved forward from the existing incremental application of these damages in the UK and considered the potential framework of legal provisions that could be applied if punitive awards are given a legitimate legislative basis. It is intended therefore, that this research will contribute to existing knowledge by identifying a path forward for the successful deterrence of copyright infringement.

Chapter One

Conceptual Framework

1.1 Introduction

An owner of an intellectual property (IP) right, which for the purposes of this thesis is limited to consideration of copyright, is vested with exclusive rights in their copyrighted work, allowing them apply to the court for a remedy for infringement of that right. That remedy has to be effective, not only to compensate the right holder for the losses sustained by the infringement, but to remove from the infringer and other likely infringers, the incentive to infringe again, as well as having a sufficient punitive effect to successfully deter infringement. In addition to other remedies such as injunctive relief, the court has the ability to order the infringing defendant to pay damages to the right holder. In the UK, the legislative basis of that remedy arises from section 97 of the CDPA 1988.³⁷ Where the defendant has the requisite knowledge of the infringement, the court may award damages based upon the principle of a statutory tort³⁸ which is assessed on the basis of compensating the right holder for the loss caused by the infringement. This is frequently assessed in accordance with the *user principle*, which considers the sum that the defendant would have paid to the right holder for the legitimate use of the copyrighted work, in effect, a *compulsory licence, or hypothetical licence*. The issue that arises with the compensatory only principle of awarding damages, is that it fails to offer a sufficient level of deterrence to prevent the infringing act occurring again, or to dissuade others from undertaking similar infringing activities. As subsequent chapters will show, the awards of damages that the UK courts have imposed upon infringing defendants, have been relatively low and unpredictable. The requirement that awards of damages for IP infringement both

³⁷ Copyright, Designs and Patents Act 1988, s 97(1) Where in an action for infringement of copyright it is shown that at the time of the infringement, the defendant did not know and had no reason to believe, that copyright subsisted in the work to which the action relates, the plaintiff is not entitled to damages against him, but without prejudice to any other remedy: (2) The court may, in an action for infringement of copyright, having regard to all the circumstances, and in particular, to (a) the flagrancy of the infringement, and (b) any benefit accruing to the defendant by reason of the infringement, award such additional damages as the justice of the case may require.

³⁸ *Main-Line Corporate Holdings* (n 8)[18] (Ang J).

compensate and deter, is explicit in European law³⁹ although often national regimes do not effectively achieve these objectives. The European Observatory on Counterfeiting and Piracy, recommended that best practices should ensure that right holders are able to recover the totality of their losses sustained by the infringement and it supported the implementation of a pre-determined calculation of damages.⁴⁰ Article 13 of the Enforcement Directive 2004/48/EC⁴¹ refers to damages being appropriate to the actual prejudice suffered by the right holder and section 97(2) the CDPA 1988, takes account of the infringer's flagrancy. This provision failed to find favour with the Law Commission in 1997, when it suggested that section 97(2) should be repealed⁴² as aggravated damages are purely compensatory and should not contain a punitive element.

When the DCA published its Consultation Paper on the Law of Damages in 2007⁴³ it explained the aims of Aggravated, Exemplary and Restitutional Damages.⁴⁴ Aggravated damages aim to compensate a victim of a wrong for mental distress or injury to feelings, in circumstances in which the injury had been caused by the manner in which the defendant committed the wrong; exemplary damages aim to punish the wrongdoer and restitutionary damages aim to strip away some or all of the gains accrued by a defendant arising from a civil wrong. It stated that additional damages are only awarded under the CDPA 1988 and the Patent Act 1977. However, the Patent Act only permits additional damages to be awarded in limited circumstances, which arise from the liability to pay equitable remuneration to the right holder, for use of specified protected seed material.⁴⁵ Where the right holder requests certain specified information from the farmer⁴⁶ or a seed processor,⁴⁷ which they knowingly fail to provide, or they knowingly provide false information,⁴⁸ the court, in an action for

³⁹ The European Observatory on Counterfeiting and Piracy: Damages in Intellectual Property Right (2010).

⁴⁰ The European Observatory on Counterfeiting and Piracy (n 39) 3, 4, 5.

⁴¹ Directive of the European Parliament and of the Council, on the Enforcement of Intellectual Property Rights, 29 April 2004, 2004/48/EC, (The Enforcement Directive).

⁴² The Law Commission Report on Damages (n 30) para 1.281.

⁴³ Law Commission Report on Damages (n 30).

⁴⁴ Law Commission Report on Damages (n 30) 195.

⁴⁵ The Patents Act 1977 schedule A1, s 3.

⁴⁶ The Patents Act 1977 s 5.

⁴⁷ The Patents Act s 6.

⁴⁸ The Patents Act s 12(1) and (3).

damages by the right holder, having had regard to the flagrancy of the defendant in providing the false information and any benefit accruing to him as a result of doing so, shall award such additional damages as the justice of the case may require.⁴⁹ The concept of additional damages therefore, only appears to apply to IP law, which could be taken to be an implicit recognition of the requirement for deterrence as a tool to combat infringement.

It is important to assess exactly what the damages regime is intended to achieve, whether that is to compensate or to deter, or both. In order to do so, it is necessary to explore the literature on theories of deterrence and punishment, for without the knowledge of the nature and aims of deterrence, it is difficult to assess how it is compatible with the copyright enforcement regime and the awarding of damages for infringement.

1.2 The compensation principle as a basis for an award of damages for copyright infringement

The compensation principle falls short of providing a deterrent effect, given that it only puts the right holder back in the position he would have been in had the injury not occurred. The leading case on the principle of awarding damages for IP infringements by way of economic torts in the UK, is *General Tyre & Rubber Co v Firestone Tyre & Rubber Co Ltd*.⁵⁰ In that case, the general rule was that the award of damages is intended to put the injured party back in the position he would have been in, had the tort not occurred. The two main principles were that (a) the plaintiff has the burden of proving his loss and (b) as the defendant is the wrongdoer, damages should be assessed liberally, bearing in mind that the object is to compensate the plaintiff, not punish the defendant.⁵¹ This position represented a shift from assessing the

⁴⁹ The Patents Act 1977 ss 12(4)(a) and (b).

⁵⁰ *General Tyre* (n 9).

⁵¹ *General Tyre* (n 9) [215]

depreciation of the value of the copyright⁵². It also raises the question of whether copyright damages can be said to be truly at large.

General Tyre was a patent case and Lord Wilberforce stated that⁵³ (a) if the plaintiff exploits the patent by manufacturing and selling goods at a profit and the effect of the infringement has been to divert sales to the defendant, the measure of damages will be the profit which would have been realised by the owner of the patent if the sales had been made by him; and (b) if the plaintiff exploits his patent by granting royalty bearing licences, the measure of damages that the defendant must pay will be the sums that he would have paid by royalty if, instead of acting illegally, he had acted legally; and (c) where it is not possible to prove that there is a normal rate of profit or a normal royalty, damages fall to be assessed by considering what price could reasonably have been charged for permission to carry out the infringing acts, known as the *User Principle*.⁵⁴

The position was subsequently considered further by Kitchen J in *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd v Anor*.⁵⁵ He summarised the position that damages are compensatory in nature, with losses being foreseeable, caused by the infringement and not precluded from recovery by public or social policy. He opined that where damages are difficult to assess the court should make the best effort that it can, having regard to all the circumstances of the case and dealing with the matter broadly and with common sense and fairness. This is based upon the observation of Jacob J, in *Gerber Garment Technology v Lectra Systems*⁵⁶ who stated that a rough and ready calculation is almost inevitable. This creates uncertainty in the application of damages and in 2006, the Gower's Review⁵⁷ recommended that the Government considers the way in which the system of damages operates in the context of IP and in particular, that it should ensure that an effective and dissuasive system of damages exists for civil

⁵² See *Sutherland Publishing Co Ltd v Caxton Publishing Co Ltd*, [1936] Ch 323 (Lord Wright MR)

⁵³ *General Tyre* (n 9) [824] [826].

⁵⁴ *Stoke on Trent County Council v W & J Wass Ltd* [1998] 1 WLR 1406, at 1416 (Nicholls L.J.)

⁵⁵ *Ultraframe (UK) Ltd v Eurocell Building Plastics Ltd v Anor* [2006] EWHC 1344 (Pat) (Kitchen J) para [47], citing *Gerber Garment Technology v Lectra Systems* (HC) [1997] R.P.C. 443 (CA) at [452].

⁵⁶ *Gerber Garment Technology* (HC) [1997] R.P.C. 443 (CA), at [452].

⁵⁷ The Gower's Review (n 4) Recommendation 38.

IP cases and that it is operating effectively. If the regime is not operating effectively, it is arguable that it cannot successfully deter infringement.

David Llewellyn⁵⁸ has considered the case law involving the user principle where the infringer has ended up paying at the low end of what it would have paid as a legitimate user. He stated that one of the fundamental rights of the owner of the IP right is the freedom to decide if others can use it, so the court's concern to avoid high awards can mean that damages awards may not reflect the value that society places on innovation and creativity.⁵⁹ It may therefore support the theory that low and inconsistent awards do not create a deterrent effect. Llewellyn also reflects on the fact that cases involving the assessment of damages in IP cases are few and far between outside the US and he considers that the reasons for this. The reasons are, that first, once a defendant has been found by a court to infringe, an out of court settlement is usually cheaper and quicker, for both the claimant and the defendant, than proceeding to the separate inquiry as to damages and secondly, the most important remedy for many successful claimants is the injunction restraining further infringement, rather than the often expensive and protracted process of obtaining an award of damages which then has to be enforced. One of the issues which then arises in relation to the assessment of the appropriate award of damages with an added deterrent effect, is that where there is extensive settlement within a split trial process following liability being concluded at the initial trial, there is an incentive for the defendant to settle quickly to avoid punitive damages and thereby reduce the potential deterrent effect. A claimant may seek an inquiry into damages, but could be swayed by the desire to conclude the litigation process quickly. This reduces the frequency of punitive damages being awarded and therefore, their potential deterrent effect.

The case law on IP infringement shows that the assessment of damages for infringement should be conducted in line with other categories of tortious claim and this is seen in the *General Tyre* case.⁶⁰ Losses are required to be foreseeable; caused

⁵⁸ David Llewellyn, Assessment of Damages in Intellectual Property Cases: Some Recent Examples of 'The Exercise of a Sound Imagination and the Practice of a Broad Axe'? (2015), *Singapore Academy of Law Journal*, 27, 480-505; http://ink.library.smu.edu.sg/sol_research/2120.

⁵⁹ David Llewellyn (n 58), 480.

⁶⁰ *General Tyre* (n 9).

by the wrong and not excluded from recovery by public or social policy.⁶¹ With regard to causation, the tort must be 'by the application of the court's common sense,'⁶² and a cause of the loss, it is insufficient to merely show that the loss would not have occurred *but for* the tort. The tort does not have to be the sole or dominant cause of such loss.⁶³ As Jacob J. stated,⁶⁴ an inquiry into damages may require the court to make a comparison between, on the one hand, future events that would have been expected to occur had the tort not been committed and on the other hand, events that are expected to occur, the tort having been committed. In *Gerber Technology*, at First Instance⁶⁵ Jacob J. considered the requirement that the plaintiff must be compensated in full for any loss arising out of the tort and it is irrelevant whether the court thinks that the balance only just tips in favour of the plaintiff, or that the causation claimed is overwhelmingly likely.⁶⁶ Commenting that 'The general policy of the law of tort in modern times is to provide compensation for damage which is foreseeably caused by the wrong. I think that is the right test here. Indeed, it is a particularly appropriate test, because as a business matter, the defendant himself can not only foresee the consequence of the wrong to the plaintiff but also foresee (and so include as part of his business plans) the corresponding benefit to himself.' This benefit may be altered if the defendant can also foresee a potential award of punitive damages against him.

1.3 *Royalties*

The claimant can also claim damages based upon a royalty which is based upon evidence submitted as to the normal royalty that he would have offered to the defendant for the use of his right. Such damages are assessed objectively, based upon previous licence rates. In *Aktiengesellschaft fuer Autogene Aluminium Co Ltd (No 2)*⁶⁷ it was stated that the successful patentee cannot ascribe any fancy sum which he says he might have charged, but in a case where he had dealt with his property merely by

⁶¹ See *Gerber* (n 56) [452].

⁶² *Galoo Ltd v Bright Grahame Murray* [1995] 1 ALL ER 16, at 29 (Glidewell L.J.); *Work Model Enterprises Ltd v Ecosystem Ltd and Clix Interiors Ltd* [1996] FSR 356, at 359-360 (Jacob J.).

⁶³ *Gerber* (n 56); and *Work Model Enterprises* (n 62).

⁶⁴ *Gerber* (n 56).

⁶⁵ *Gerber* (n 56) (Jacob J) [403].

⁶⁶ *Allied Maples Group v Simmons & Simmons* [1995] WLR 1602 at 1609-1610 (CA) (Stuart Smith LJ).

⁶⁷ *Aktiengesellschaft fuer Autogene Aluminium Co Ltd (No 2)* (1923) 40 RPC 107 at 113-114 (Sargant J).

way of a licence and there have been licences at certain definite rates, there *prima facie*, apart from any reason to the contrary, the price or royalty which has been arrived at by means of a free bargain...has been taken as being the price or royalty that presumably would have been paid by the infringer. This is often expressed as a percentage, as in the case of *Ludlow Music Inc v Williams*⁶⁸ where copyright in the lyrics of a song by Loudon Wainwright III was infringed by their inclusion in a song by Robbie Williams. The court assessed damages objectively and awarded the claimant a 25% royalty share.

1.4 *The user principle*

A further way to assess damages is based upon the *user principle*,⁶⁹ which is that a person who has wrongfully used the property of another, can be liable to pay damages based upon a reasonable sum for that use.⁷⁰ The damages are based upon what the willing licensor and the willing licensee would have agreed in all the circumstances.⁷¹ The application of the user principle to copyright cases was specifically dealt with by Morritt V-C in *Blayney v Clogau St David's Gold Mines*⁷² where the court was undertaking an inquiry as to damages and the defendant had argued that copyright cases should not be subject to assessment based upon the user principle. This was rejected by Morritt V-C, who stated that 'I can see no reason not to apply it. In each case, the infringement is an interference with the property rights of the owner...Whilst, no doubt, there are differences between the rights granted to a patentee and those enjoyed by the owner of the copyright, they draw no distinction between the effect of an infringement of a patent rather than a copyright.' The user principle fails to provide an incentive not to infringe, as it only awards damages based upon what the infringer would have paid to the right holder in a legitimate context. There is no deterrent as the infringer may prefer to take the risk of being caught, against that of paying the legitimate fee.

⁶⁸ *Ludlow Music Inc v Williams* [2002] FSR 57.

⁶⁹ *Stoke-on-Trent City Council* (n 54).

⁷⁰ *Attorney General v Blake* [2001] 1 AC 268, at 278-279 (Lord Nicholls of Birkenhead).

⁷¹ *General Tyre* (n 9) (Lord Wilberforce).

⁷² *Blayney v Clogau St David's Gold Mines* [2003] FSR 19 [20].

1.5 *Proof of loss*

The assessment of actual damages relies upon the claimant to prove their loss. This can be difficult to demonstrate, even where the loss appears to be extensive. The claimant has to prove lost revenue, such as the profits lost as a result of customers taking their business to the infringer instead of the claimant, any damage to goodwill or reputation, loss of commercial advantage, diminished work exploitation, advantages or value, and violation or cancellation of contracts. Such perceived and actual losses are very difficult to prove. Further, lost profits or consequential damage, or the profit that the claimant has failed to earn as a result of the infringement also has to be established as a reasonable probability. There is a risk that the defendant could satisfy the court that these losses would have occurred anyway due to adverse market conditions or competing products in the market place. Assessing the loss of profits is an inexact science and unduly speculative. There are various methods of undertaking such calculations, including the comparison of pre and post infringement sales, or by the multiplication of infringing items by their sales value as infringers are only liable for actual, not speculative profits. In the assessment of hypothetical licences or royalties, issues arise if the claimant has no history of granting comparable licenses or fails to present evidence of benchmark licences in the industry in question, which would result in undue speculation on the part of the court. What the claimant considers to be the fair market value of the work is not evidence upon which a fair calculation can be made. Taking into account the evidential difficulties associated with the calculation of compensation for copyright infringement, there may be a strong argument for pre-established damages. In the US, in 90% of infringement cases, the claimant requests statutory damages.⁷³ This eases the evidentiary burden for proving damages by the owner of the work infringed. US Congress labelled these damages as ‘statutory’ rather than ‘punitive’, which suggests that they are not solely awarded for the sake of punishment, but also as compensation for unproven harm.⁷⁴ These damages awards are decided by juries and can clearly overcompensate, as well as under compensate,

⁷³ Ben Depoorter, *Copyright Enforcement in the Digital Age: When the Remedy is Wrong*, 66 UCLA L.Rev. 400 (2019).

⁷⁴ Ioana Vasiu & Lucian Vasiu, *Cross Jurisdictional Analysis of Damages Awards in Copyright Infringement Cases*, (2021) 28 J. Intell. Prop. L., at 115.

due to the lack of actual evidence presented to the court. However, when applied by a judge, pre-established or statutory damages have the potential to provide an appropriate and cost effective method of compensation for copyright infringement and can also include a punitive element.

1.6 *What are compensatory damages trying to achieve?*

This summary of the basis of compensatory damages outlines the three methods of awarding compensatory damages. What needs to be considered, is the purpose of compensatory damages and in principle, what they are meant to accomplish. John Goldberg has explored two conceptions of tort damages: the fair versus full compensation theory.⁷⁵ The author identifies that the purpose of tort damages is to compensate, to restore the *status quo ante* and to make the plaintiff whole, with the immediate purpose of a tort suit being to compensate the victim with an amount of money equal to the losses suffered because of the tort.⁷⁶ This theory concentrates on the claimant, the victim, rather than the defendant or society at large. Goldberg goes on to consider that typically, the law makes tortious causes of action available in order to enable someone who has suffered a certain type of wrong at the hands of another to vindicate his or her interests as against the wrongdoer by empowering him or her to proceed against the wrongdoer through the legal system. The animated ideas here are relational and retaliatory, such as the notions of empowerment, response and satisfaction.⁷⁷ Some academics believe that the compensatory function of tort enables it to serve some additional function or functions of equal or greater importance, such as loss spreading or deterrence of anti-social conduct.⁷⁸ Blackstone⁷⁹ considered the concept of private wrongs and public wrongs. A public wrong is a crime, defined as “a breach and violation of public rights and duties, which affect the whole community...A private wrong is conduct that involves an infringement or privation of the private or civil rights belonging to individuals...” Whereas private wrongs generate a claim on

⁷⁵ John C. Goldberg, *Two Conceptions of Tort Damages: Fair v Full Compensation*, (2006) 55 DePaul L.Rev. 435. <http://via.library.depaul.edu/law-review/vol55/iss2/8>.

⁷⁶ Goldberg (n 75) 435.

⁷⁷ Goldberg (n 75) 436.

⁷⁸ See generally, Goldberg (n 75).

⁷⁹ William Blackstone, 1 Commentaries, at *117; 2 *id* at *2.

behalf of the victim against the wrongdoer to redress the wrong done to him or her, public wrongs generate a power in the state to punish the wrongdoer for the common good.

Blackstone considered private wrongs to include breach of contract, as well as tortious acts such as assault, battery, conversion, false imprisonment, malpractice, negligence and trespass to land.⁸⁰ Each of those torts identified a set of duties owed by one person to another person, or classes of persons, that required him or her to act or refrain from acting in specified ways towards that other or others, so as to avoid interfering with his or her rights.⁸¹ Infringement of copyright is essentially a private wrong, as it involves an interference with the rights of the copyright owner. Blackstone considered tort law to be a law that articulated a cluster of private wrongs. He identified tort redress in terms of pecuniary satisfaction and it could be distinguished from the commission of a crime by the type of duty at issue and the type of response that the law authorised. As public wrongs, crime involved breaches of duty owed to nobody in particular or to the state, or the community at large and when such crimes were committed the appropriate response was punishment for the public good and the appropriate responder was the state, or latterly, the individual on behalf of the state.⁸² As a private wrong, torts involved a failure to heed duties of non injury owed by individuals to particular persons or classes of persons and the law responded by empowering the victim of the tort to sue for redress, usually in the form of a court ordered damages payment.⁸³

It is the nature of the damages that are ordered that merit discussion here. Are those damages sufficient for redress if they are compensatory only, or are some form of enhanced damages necessary to compensate the injured party and act as a deterrent. Blackstone referred to the fact that in a personal action, the jury (where damages are awarded by juries, as in the US)⁸⁴ is to award damages adequate to provide satisfaction⁸⁵ and that the plaintiff has the right to recover 'damages for the injury

⁸⁰ William Blackstone, 1 Commentaries, at *116-18.

⁸¹ William Blackstone, 1 Commentaries, at *2.

⁸² Goldberg (n 75) 441.

⁸³ Goldberg (n 75) 441.

⁸⁴ In Blackstone's time, all civil damages claims were heard by juries.

⁸⁵ William Blackstone, 1 Commentaries, at *128.

sustained.⁸⁶ He does not refer merely to the fact that the injured party should be awarded a sum of money equal to the quantum of *loss* suffered, but that it should suffice to provide satisfaction for the *victimisation*, including not only the harm caused to the injured party, but to the objective fact of having been mistreated by another.⁸⁷ Goldberg notes⁸⁸ that Blackstone supports this by observing that claims for particularly heinous or willful wrongs may subject the tortfeasor to a statutory multiplier or ‘very large and exemplary damages,’ and that nowhere does he suggest that these exemplary damages are different in kind from ‘ordinary’ damage awards, or that they are awarded for public rather than private purposes, because they form part of the redress to which the victim is entitled because of the nature of the tortfeasor’s mistreatment of the victim.

Blackstone’s idea of tort law was based upon the idea of injury; the wrongful treatment of one person by another, supporting fair compensation as a basis of damages.⁸⁹ In the US, this has evolved to a concept of full compensation, or indemnification for the loss sustained as a result of the tort. This is noted above in reference to Blackstone recognising the concept of ‘exemplary’ damages, although not as a separate head of damages. In the US, case law began to move towards full compensation, or making the victim ‘whole again’ in the awarding of damages. In *Bishop v Stockton*⁹⁰ the jury were provided with the instruction ‘*If the defendants are found liable, then the inquiry will be what amount of damages shall be given? Shall they be compensatory or exemplary? Compensatory damages are given to restore or make whole again, or make reparation for loss, injury, or suffering, past and future....But further vindictive or exemplary damages may be given to indemnify the public for past injuries and damages and to protect the community from future risks and wrongs.*’

Simon Greenleaf⁹¹ who wrote a US evidence text, noted that ‘Damages are given as a compensation, recompense or satisfaction to the plaintiff, for an injury actually

⁸⁶ William Blackstone, 1 Commentaries, *124.

⁸⁷ William Blackstone, 1 Commentaries, *125.

⁸⁸ Goldberg (n 75) 442.

⁸⁹ Goldberg (n 75) 447.

⁹⁰ *Bishop v Stockton*, 3 F. Cas. 453, 454-55 (Pa. Cir. Ct. 1843).

⁹¹ Simon Greenleaf, A Treatise on the Law of Evidence § 253, 242 n.2 (2nd ed. 1848)

received by him, from the defendant. They should be precisely commensurate with the injury, neither more, nor less; and this, whether it be to his person or estate.’ Jill Wieber Lens⁹² has considered the purpose of compensatory damages in tort and fraudulent misrepresentation and she considers the meaning of compensatory damages, stating that if factors other than the plaintiff’s injury change the amount of damages, are the damages still compensatory?⁹³ If so, what does compensatory mean anymore? Wieber Lens notes that the types and measures of tort damages are based on the purposes of tort law, which are (a) to give compensation, indemnity or restitution for the harms; (b) to determine rights; (c) to punish wrongdoers and deter wrongful conduct; and (d) to vindicate parties and deter retaliation or violent self-help and that awarded damages must carry out one or more of these purposes.⁹⁴ Based upon its first purpose, tort law provides for recovery of compensatory damages, putting the injured party in a position substantially equivalent in a pecuniary way to that which he would have occupied had no tort been committed, thus making the claimant whole. Compensatory damages do not include any amount in excess of the damage the claimant has suffered because the claimant is entitled to be made whole and nothing more. Compensatory damages do not confer a windfall on the claimant.⁹⁵ Based upon the third and fourth purposes of tort law, punitive damages are available in some tort claims, with the aim being to punish and deter the defendant wrongdoer and in certain torts punitive damages may be awarded to punish the defendant for his conduct and to deter him and others from committing similar conduct in the future. Tort law therefore encompasses the ideas of punishment and deterrence.⁹⁶ This concept differs from the position of the courts, where tort tends to be measured by the result or effect of the tort rather than by the tort itself. This was demonstrated in the *General Tyre case*⁹⁷ and the *Ultraframe case*.⁹⁸

Copyright infringement is ‘compensated’ as an economic tort, which effectively confers a compulsory licence upon the infringer, awarding damages in accordance with the

⁹² Jill Wieber Lens, *Kansas Law Review*, Vol. 59, (2010), 231.

⁹³ Wieber Lens (n 92) 232.

⁹⁴ Wieber Lens (n 92) 235.

⁹⁵ Wieber Lens (n 92) 235.

⁹⁶ Wieber Lens (n 92) 236.

⁹⁷ *General Tyre* (n 9).

⁹⁸ *Ultraframe* (n 55).

usual royalty or licence fee charged by the copyright holder or in the absence of that, in accordance with the user principle. That can result in under-compensation and also, under-deterrence. Stephen J. Shapiro has analysed these concerns.⁹⁹ He argues¹⁰⁰ that a prevailing claimant will not normally be made whole by the award of a reasonable amount of compensatory damages, the primary reason being that the claimant will have to pay legal costs out of the award (which is not the case in the UK). Further, he argues that a secondary purpose of tort law is to deter wrongful, potentially harmful conduct and this purpose is especially pertinent to intentional conduct. A party will be less willing to engage in intentional tortious conduct if he knows that he will have to pay for the harm. Therefore, to the extent that a defendant can engage in tortious conduct and not be held fully accountable financially, the maximum deterrent effect of the law is not being realised. Since not all parties can or will successfully bring suit, the maximum amount of compensatory damages faced by the defendant will often be significantly less than the damage the defendant has caused and in some cases less than the benefits the defendant has reaped. In those cases when tortfeasors hope to gain more than they expect to pay in damages, the deterrent effect may fail. In the US unlike in the UK, mechanisms such as punitive damages, or multiple, double or treble damages have been invoked to help alleviate the problem,¹⁰¹ although the concept of statutory damages originally began under the Copyright Act 1709, (the Statute of Anne). The UK already allows for the payment of legal costs.¹⁰² Punitive damages were developed under the common law to punish and deter particularly egregious conduct, but Shapiro argues that the need for egregious conduct has resulted in punitive damages having little or no effect, either compensatory or deterrent, on intentional behaviour that does not rise to that very high level of wrongness.¹⁰³ Punitive damages therefore require application based on assessment appropriate to the conduct of the defendant.

⁹⁹ Stephen J. Shapiro, *Overcoming Under-Compensation and Under-Deterrence in Intentional Tort Cases: Are Statutory Multiple Damages the Best Remedy?* (2011) 62 Mercer L.Rev. 449.

¹⁰⁰ Shapiro (n 99) 450-451.

¹⁰¹ Shapiro (n 99) 452.

¹⁰² The 'American Rule' provides that in the US each party pays its own legal fees. Also known as the American exception. Richard H Field, Benjamin Kaplin & Kevin M Clermont, *Materials on Civil Procedure* (9th ed. Mineola 2007).

¹⁰³ Field, Kaplin, Clermont (n 102) 451.

1.7 *Intentional conduct*

Copyright infringement can be intentional or unintentional. Under section 97(1) of the CDPA 1988, damages are only awarded for infringing acts where the defendant has the requisite knowledge. Damages will not be awarded where the defendant did not know nor had reason to believe that copyright subsisted in the work in question. Section 97(2) permits the awarding of additional damages, taking into account the flagrancy of the infringement and the benefit that the defendant has gained from the his infringing acts. It has been recognised that the deterrent effect of damages will be stronger on most intentional actions than on negligent actions and that while individuals can be encouraged to be more careful through the imposition of damages, deterrence should be much stronger in cases where the tortfeasor has made a conscious decision whether to act. This is especially true for intentional torts undertaken for financial gain.¹⁰⁴ As the amount of the damages increase, the incentive to perform the conduct decreases.¹⁰⁵ It is important to achieve a balance in the amount of punitive damages awarded and in the US, unlike in the UK, the amount set has been by a jury not a judge, with concerns that the amounts awarded were skyrocketing, leading to the Supreme Court imposing constitutional restrictions on the size of punitive awards.¹⁰⁶

1.8 *Multiple damages*

Shapiro gives consideration to the option of imposing multiple (double or triple) damages as well as to punitive damages, where a defendant has acted intentionally and wrongly. Punitive damages are a common law remedy unlike multiple damages, which are statutory in nature. Multiple damages differ from punitive damages in the US, where the latter are determined by the jury. Multiple damages, where they are discretionary and not mandatory upon a violation of statute, are determined by the judge.¹⁰⁷ There is therefore the element of judicial discretion that acts to avoid either excessive awards or a lack of award in a suitable case. Shapiro concludes with the

¹⁰⁴ Shapiro (n 99) 457.

¹⁰⁵ See Richard A. Posner, *Economic Analysis of Law* (7th ed. Aspen 2007)

¹⁰⁶ Shapiro (n 99) 461.

¹⁰⁷ Shapiro (n 99) 476.

recommendation that statutory reform should impose damages double the amount of compensatory damages in any case of tortious conduct that was taken with the intent to cause harm, with the knowledge that it would cause harm, or in reckless disregard as to whether it would cause harm, unless special circumstances would render the award unjust. In cases of malicious or egregious conduct, the court may award up to three times the amount of compensatory damages.¹⁰⁸ This thesis will consider the calculation of punitive damages in a subsequent chapter, but Shapiro's statutory recommendation for multiple damages does not take into account the sum of the compensatory damages, which may be relatively low, so even a double, triple or multiple damages may not provide a sufficient deterrent in certain circumstances.

1.9 Additional factors to be considered

In copyright enforcement there are additional factors to be considered, in addition to the obvious requirement to compensate the right holder for the financial losses incurred as a result of the infringement. These factors include the need to balance the interests of copyright owners and the general public who access the copyrighted works, as well as supporting innovation and creativity. The proliferation of internet activity has enabled large scale infringement in the digital environment and links to organised crime and piracy has created a risk to health and safety from counterfeit medicines and cosmetics. The IPO Crime and Enforcement Report 2019/20¹⁰⁹ contains statistics for IP infringement, which impact specifically in the UK. This Report deals with the criminal aspect of IP infringement, which is attributable to 'greed and need'.¹¹⁰ The IPO Report stated that as the economic hit of the Covid 19 Pandemic becomes a reality, it is likely that insecure employment and business uncertainty, will have significant impacting on levels of IP crime. The Report noted in its Executive Summary, that the same entrepreneurial spark that powers the legitimate economy, ignites a criminal reaction, as legitimate IP has an illegal mirror image. The ingenuity of infringers of IP rights appears to have kept track with and even to some extent to

¹⁰⁸ Shapiro (n 99) 499.

¹⁰⁹ The IPO Crime and Enforcement Report 2019/20, The Intellectual Property Office, IP Crime Group, <http://www.assets.publishing.service.gov.uk>.

¹¹⁰ The IPO Crime and Enforcement Report 2019 (n 109) 14.

outpace, the development of the legitimate business models designed to facilitate online commerce. A characteristic of many of the offenders identified in the IPO Report, was that many of them work alone, or as part of local or familiar networks, specialising in exploiting 'niches' in the counterfeiting environment. This was seen as a blurring of the boundary between legitimate business and illegitimate trade, with customers moving from legal to illegal trading relatively freely. Statistics from Trading Standards reports that 'ordinary' shops and social media remain the most important vector for certain kinds of IP crime in the UK and the data from the Counterfeiting Goods Tracker Reports suggest that at least in some areas of IP crime, what we are really talking about is the difference between legal opportunism and illegal opportunism.¹¹¹ This type of activity may benefit most from a deterrent effect in an applied remedy, given that 'ordinary' customers and businesses are unlikely to have access to the financial resources allowing them to be blasé about engaging in infringing activities.

Whilst this Report refers to crime, not civil infringing activities, it identifies the type of individuals for whom a deterrent effect in the awarding of damages may be persuasive in the decision not to infringe. As Daniel Gervais has noted¹¹² the law has not changed, but its target, the non professional user has. Many offenders are isolated infringers and many consumers are complicit in that infringement. Copyright, like other categories of IP rights, gives rise to wider issues than other, more individual related torts, which create a loss only to the individual, therefore copyright infringement has implications for society at large as well as to the economy of the country. The goals of sanctioning wrongdoers, compensating victims, corrective justice generally and punishment, may seem dominated by financial considerations and in tort, although the goal of 'making a plaintiff whole' is essential and laudable, the simple fact is that money is not the only goal. Money approximates loss and covers expenses. It can alter financial possibilities and provide remedial potential. Justice requires more: the avoidance of similar harms, or deterrence. In many instances, it is the civil justice system that provides present and prospective normative force. Through the legal

¹¹¹ The IPO Crime and Enforcement Report 2019 (n 109) Executive Summary 5, 6.

¹¹² Daniel J Gervais, *Restructuring Copyright: A Comprehensive Path to International Copyright Reform*, (ed. Edward Elgar 2017)123, 124.

process, claims are filed, settlements reached, litigation is initiated and the process for compensation addressed. Through precisely that process, the engine of deterrence is activated. That such an elaborate, complex, phenomenally central system of justice would exist solely to provide individual compensation is inconceivable.¹¹³

1.10 *What constitutes deterrence*

It is necessary to consider the concept of deterrence; what it is and how it can be applied. There are two types of deterrence, general and specific deterrence. General deterrence is concerned with the prevention of crime in the general population, with the punishment of offenders by the State serving as an example to others in the general population, who have not yet participated in criminal or unlawful activity. It is to make them aware of the nature and type of official sanctions in order to dissuade them from engaging in crime or unlawful activity. Specific deterrence is designed, by the nature of the proscribed sanctions, to deter only the individual offender from committing that crime or activity again. The concept of specific deterrence is that by punishing offenders severely, it will make them unwilling to re-engage in criminal activity in the future. In the field of economics, the term *deterrence* is used, while in criminology, it is stated to be *general deterrence*. It is necessary to consider the concept and application of deterrence in order to understand how punitive damages can be utilised to deter copyright infringement.

1.11 *Classical theories of deterrence*

The deterrence theory of punishment can be traced to the early works of classical philosophers such as Thomas Hobbes (1588-1678), Cesare Beccaria (1738-1794) and Jeremy Bentham (1748-1832), who provided the foundation for modern deterrence theory in criminology. In *Leviathan* in 1651¹¹⁴ Thomas Hobbes described men as neither good nor bad, assuming that men are creatures of their own volition who want certain things and who fight when their desires are in conflict. He believed that

¹¹³ Popper, Andrew, "In Defence of Deterrence" (2011), in *Articles in Law Reviews & Other Academic Journals*, Paper 294, <http://digitalcommons.wcl.american.edu/facsch Lawrev/294>.

¹¹⁴ Thomas Hobbes, *Leviathan* (first published 1651, Penguin 1985).

individuals generally pursue their self interests, such as material gain, personal safety and social reputation and make enemies without caring if they harm others in the process. Hobbes opined that humans are rational enough to realise that the self interested nature of people, would lead to crime and inevitable conflict due to the alienation and exclusion of some members of society. In order to avoid this, people agree to give up their own egocentricity as long as everyone does the same thing approximately. This is what Hobbes termed the social contract, such that in order to avoid war, conflict and crime, people enter into a social contract with the government so that it will protect them from human predicaments. The role of the state is to enforce the social contract and that if a person agrees to the contract, he authorises the sovereign to use force to uphold it. Hobbes stated that crimes would still occur, even if the government performs its duties under it. He argued therefore, that the punishment for the crime must be greater than the benefit that comes from its commission. Deterrence is the reason that individuals are punished for violating the social contract and it serves to maintain that contract between the state and the individual in the form of a working social contract.

Cesare Beccaria published *Dei delitti e delle Pene (On Crimes and Punishments)*¹¹⁵ in 1764. In this work, he challenged the right of the state to punish crimes. He followed Hobbes in his view that laws should be judged by their propensity to afford the 'greatest happiness shared by the greatest number.'¹¹⁶ Since people are rationally self interested, they will not commit crimes if the cost of committing the crime prevails over the benefits of engaging in undesirable acts. Beccaria argues that if the sole purpose of punishment is to prevent crime in society, punishments are unjust when their severity exceeds what is necessary to achieve deterrence¹¹⁷. Excessive deterrence will not reduce crime, it will only increase crime, as swift and certain punishment are the best means of preventing and controlling crime; punishment for any other reason is capricious, superfluous and repressive. Beccaria believed that human beings are rational beings with free will to govern their own decisions and that laws should be published so that people may know what they represent; their intent as well as their

¹¹⁵ Cesare Beccaria, *Dei delitti e delle pene (On Crimes and Punishments)*, originally published in 1764, (introduction by H. Paolucci, Tr.) (New York: Macmillan 1963).

¹¹⁶ Beccaria (n 115) 8.

¹¹⁷ Beccaria (n 115) 14.

purpose. Basing the legitimacy of sanctions on the social contract, Beccaria called laws 'the conditions under which men, naturally independent, united themselves in society.'¹¹⁸ According to Beccaria, judges should determine guilt and the application of the law, rather than the spirit of the law. Legislators should pass laws that define crimes and they must provide specific punishments for each crime and to have a deterrent value, punishment must be proportionate to the crime committed. He also advocated that the seriousness of the crime should be based on the harms done to society. His view was that pleasure and pain are the motives of rational people and that to prevent crime, the pain of punishment must outweigh the pleasure received from committing crime.

Jeremy Bentham was one of the most prominent 18th century intellectuals on crime. In 1780, he published *An Introduction to the Principles of Morals and Legislation*.¹¹⁹ In that work, he set out his famous principle of utility, arguing that 'nature has placed mankind under the governance of two sovereign masters, pain and pleasure'¹²⁰ He believed, like Beccaria, that morality is that which promotes the greatest happiness of the greatest number'¹²¹ and that to promote the happiness of the society, by punishing and rewarding.'¹²² Similarly to Beccaria, he had difficulty with the concept of arbitrary punishment, believing that all punishment is mischief and all penalties are evil, unless punishment is used to avert greater evil, or to control offenders. Punishment in excess of what is essential to deter people from violating the law, is unjustified.

What has emerged from the work of these three philosophers are three individual components of punishment; severity, certainty and celerity (or swift punishment). The more severe the punishment, the more likely it is that a rationally calculating human being will desist from criminal acts and in order to prevent crime, the criminal law must emphasise penalties to encourage citizens to obey the law. That requires a balancing act, as too severe a punishment is unjust and punishment that is too severe,

¹¹⁸ Beccaria (n 115) 11.

¹¹⁹ Jeremy Bentham . (1948), *An Introduction to the Principles of Morals and Legislation* (New York, Macmillan).

¹²⁰ Bentham (n 119) 125.

¹²¹ See I.L.Moyer *Criminological Theory: Traditional and Non Traditional Voices and Themes* (Thousand Oaks, CA, Sage 2001) 26.

¹²² Bentham (n 119) 189.

will not act to deter criminals from committing crime. Certainty of the punishment means that punishment will always follow the unlawful act, the deterrent being the knowledge of certain penalties. Finally, the punishment should be swift, the closer the punishment to the criminal act, the greater the likelihood that offenders realise that crime does not pay. Therefore, litigation should not be protracted.

1.12 *Economic theories of deterrence*

The Rational Choice Theory is, according to Gary Becker,¹²³ when a sane person commits a crime, if the subjectively expected benefit is greater than the benefit that could be realised by spending time and further resources on other activities. Consequently, individuals do not become criminals because they differ from other people in terms of their basic motivation, but because of their different costs and benefits. Thus an individual chooses legal or illegal actions which he *subjectively* expects to increase his benefit. According to Becker, the subjective assessment of these factors depends on the individual attitude towards risks. Therefore, individuals who are prepared to take risks are rather deterred by the probability of being caught than by the level of penalty. Individuals who avoid risks are rather deterred by the impact of heavier penalties than by the probability of being caught. Becker concludes that criminal individuals are more likely to take risks and that therefore, the probability of being caught is generally more important than the penalty. This can also be described in *utility* terms. An individual can be said to face three potential outcomes, each of which delivers a different level of utility: (1) the utility associated with the choice to abstain from crime; (2) the utility associated with choosing to commit a crime that does not result in apprehension; or (3) the utility associated with choosing to commit a crime that results in apprehension and punishment, the crime being worthwhile so long as the expected utility exceeds the utility from abstention.

¹²³ Gary S. Becker, Crime and Punishment: An Economic Approach, Journal of Political Economy, Vol 76. No. 2 (Mar-Apr 1968) 169-217.

Ehrlich took a different approach,¹²⁴ which was that the opportunity cost of engaging in illegal activity is front and centre, with participation in crime being a time allocation choice. Grogger for example, assumes that the return to crime diminishes as the amount of time devoted to that crime increases. This argument suggests that when the initial step into crime is taken, there is the highest expectation of rewards, with the lowest probability of being apprehended, followed by the involvement of less lucrative opportunities.¹²⁵ If this is applied to IP infringement, it could be that an individual's first foray into infringement may be somewhat easily undertaken; the use of the illicit photograph to enhance a business, quick, relative risk free and an increase in trade. Subsequently, more images are used illegally, but with less care taken about covering the wrongdoing, but leading to more chance of the activity being discovered and the infringer being apprehended.

There is also a benefit to society from a strong level of deterrence, in that not only does it result in lower crime, but that reduced crime level keeps offenders out of the prison system, such that deterrence, relative to incapacitation, is the cheaper option. Offenders who are successfully deterred do not have to be identified, apprehended, successfully prosecuted, sentenced and incarcerated. Chalfin and McCrary¹²⁶ assert that assessing the degree to which potential offenders are deterred by either carrots (better employment opportunities) or sticks (more intensive policing or harsher sentences) is a first order policy issue.¹²⁷ The authors also identify that the theories of Becker and Ehrlich show three main behavioural predictions: (1) the supply of offences will fall as the probability of apprehension rises; (2) the supply of offences will fall as the severity of the criminal sanction increases and; (3) the supply of offences will fall as the opportunity cost of crime rises.¹²⁸

1.13 Identifying the infringer

¹²⁴ Issac Ehrlich 'Participation in Illegitimate Activities: A Theoretical and Empirical Investigation.' 1973, *Journal of Political Economy*, 81 (3) ; 521-65.

¹²⁵ Jeffrey Grogger, 'Market Wages and Youth Crime.' *Journal of Labour Economics*, 1998, 16 (4): 756-91.

¹²⁶ Aaron Chalfin and Justin McCrary, Criminal Deterrence: A Review of the Literature, *Journal of Economic Literature* 2017, 55(1), 5-48, at <http://doi.org/10.1257/jel.20141147>.

¹²⁷ Chalfin and McCrary (n 126) 5.

¹²⁸ Chalfin and McCrary (n 126)10.

Applying these theories of deterrence against copyright infringement it is necessary to consider who the infringers are, before assessing whether the carrot or stick approach will be more effective. Criminal conduct can generally be narrowed down to *need and greed*,¹²⁹ but it is arguable that copyright infringement, as with other IP infringement, may have other factors at play. As the proliferation of internet use has allowed individuals to access and download copyright work without the right holder's permission, many infringers will undertake illegal acts simply because they can, without giving too much consideration to the illegal nature of their activity and as Daniel Gervais¹³⁰ has noted, many infringers act in isolation. Such individuals may be deterred by reasonable access models initially, but a public awareness campaign about the certain imposition of deterrent level damages *may* help to deter individuals, who are risk averse generally. Conversely, the commercial level infringer, is more likely to be aware of the risks of apprehension and penalty, especially if they form part of an organised crime ring and they may be more prepared to take risks and therefore more deterred by the probability of apprehension.

Steven Shavell¹³¹ has argued that the theory of deterrence has been concerned primarily with situations in which individuals consider whether to commit a *single* harmful act, whereas in some contexts a person may be contemplating which of *several* harmful acts to commit. He states that¹³² in such contexts the threat of sanctions plays a role in addition to the usual one of deterring individuals from committing harmful acts: it influences which harmful acts *undeterred* individuals choose to commit, as undeterred individuals will have reason to commit fewer, rather than more harmful acts if expected sanctions rise with harm. In the IP context, this may be persuasive where the potential for numerous infringing acts are present. Shavell argues that this tendency is sometimes said to reflect marginal deterrence, because the individual will be deterred from committing a more harmful act owing to the difference, or margin, between the expected sanction for that act and for a less harmful act.

¹²⁹ IPO Crime and Enforcement Report (2019/20) (n 109).

¹³⁰ Gervais, *Restructuring Copyright* (n 112) 123, 124.

¹³¹ Steven Shavell, A Note on Marginal Deterrence, (1992) *International Review of Law and Economics*, 12, 345-355.

¹³² Shavell, (n 131) 345.

1.14 *Marginal deterrence*

.Stigler¹³³ has been credited with the term, marginal deterrence¹³⁴ and he attempted to construct a theory of rational enforcement. His view of the goal of enforcement can be assumed to be to achieve the degree of compliance that society believes that it can afford, with the issue of the cost of enforcement mitigating against 'complete' enforcement. Stigler observes that the extent of enforcement of laws depends on the amount of resources devoted to the task.¹³⁵ This can be seen in the international enforcement of IP, when less developed countries devote fewer resources to IP enforcement. As Peter K Yu has pointed out,¹³⁶ the negotiations between developed, developing and less developed countries, led to a weakening of the TRIPS language, which included many result orientated, vague, broad and undefined terms, such as *effective, reasonable, fair and equitable, not unnecessarily complicated or costly* and the undefined term, *commercial scale*. The less developed countries successfully demanded the inclusion of limitations and exceptions in the TRIPS Agreement, including Article 41.5, which provides that Member States are not required to devote more resources to IP enforcement than to other areas of law enforcement. This alleviated concerns about the need to set up specialised IP courts or to strengthen IP enforcement. However, a well functioning IP regime depends on the existence of an 'enabling environment' for the effective protection and enforcement of IP rights. The key pre-conditions for successful IP reforms include a consciousness of legal rights, respect for the rule of law, an effective and independent judiciary, a well functioning innovation and competition system, a sufficiently developed basic infrastructure, a critical mass of local stakeholders and established business practices.¹³⁷ Until judicial systems in developing and transition countries are upgraded, it will matter little what

¹³³ Stigler, George J. "The Optimum Enforcement of Laws," Journal of Political Economy, University of Chicago Press, (1970) vol. 78(3) 526-536 (May-June).

¹³⁴ Shavell (n 131) 345-355.

¹³⁵ Shavell (n 131) 345-355.

¹³⁶ Peter K Yu, 'TRIPS and it's Achilles Heel,' (2011) 18 J. Intell. Prop. L. 479, 483.

¹³⁷ Yu (n 136) 479-483.

intellectual property laws and treaties provide.¹³⁸ As Stigler observes, enforcement is costly.¹³⁹

The cost limitation upon the enforcement of laws would prevent the society from forestalling, detecting and punishing all offenders, but it would appear that punishments which would be meted out to the guilty could often be increased without using additional resources. The offender is deterred by the expected punishment, so increasing the punishment always seems to increase the deterrence.¹⁴⁰ This marginal deterrence is illustrated thus; if the offender will be executed for minor assault and for murder, there is no marginal deterrence to murder. Marginal costs are necessary to marginal deterrence and it avoids over enforcement. In relation to an offence to society, the quantity of resources will generally increase with the gravity of the offence.¹⁴¹ However, an increase in resources will not manifest itself only in an increase in punishment but the offender will be pursued more tenaciously the more abject the offence.¹⁴² Stigler raises a point that resonates in the IP context, which is that a first time offender may have committed the offence almost accidentally and given any type of punishment, there is a negligible probability of repetition.¹⁴³ This can be illustrated by an accidental infringer who, when faced with a payment of sufficient additional damages under section 97(2) of the CDPA 1988, may hesitate repeat the infringement. A seasoned offender will not infringe further if he is incarcerated in accordance with the criminal provisions under section 107 of that Act, but with a low tariff sentence, may reoffend when he is released. Similarly, an appropriately set level of punitive damages, may deter future infringement, even by a seasoned infringer.

Michel Foucault noted that in its function, the power to punish is not essentially different from that of curing or educating.¹⁴⁴ In *Discipline and Punish*, Foucault describes his concept of power by a genealogical study of crime and punishment in

¹³⁸ Robert M. Sherwood, 'Some Things Cannot be Legislated,' 2002, *Cardozo Journal of International and Comparative Law*, 10(1) 37-46, 42.

¹³⁹ Stigler (n 133) 56.

¹⁴⁰ Stigler (n 133) 56.

¹⁴¹ Stigler (n 133) 57.

¹⁴² Stigler (n 133) 58.

¹⁴³ Stigler (n 133) 58.

¹⁴⁴ Michel Foucault, *Discipline and Punish: The Birth of the Prison*, pt 4, ch 3 (1975),(Pantheon Books 1977).

Europe. This is undertaken by the provision of two different types of punishment. The first scenario is set in 1757, when a criminal was tortured to death, slowly, painfully and publicly. The second scenario related to 1837, with a description of the activities that prisoners endured during the daytime during incarceration. In the latter scenario, there was no physical pain by torture or execution,¹⁴⁵ but Foucault described the aim to be “not to punish less, but to punish better.”¹⁴⁶ However, his notion was that “if the penalty in its most severe forms no longer addresses itself to the body, on what does it lay hold?”¹⁴⁷ His belief was that it was the soul of the prisoner which should bear the burden of the punishment: “The expiation that once rained down upon the body must be replaced by a punishment that acts in depth on the heart, the thoughts, the will, the inclinations.” He argued that now the punishment does not tend to punish the crime, “but to supervise the individual, to neutralize his dangerous state of mind, to alter his criminal tendencies and to continue even when his change has been achieved.”¹⁴⁸ He describes the supervision, neutralization and alteration as the ‘Docile Body,’ believing that a docile body may be subjected, used, transformed and improved.”¹⁴⁹ Taking Foucault’s theory and applying it to the imposition of punitive damages, the aim of legislation is to punish better and affect the infringer’s thoughts, will and inclinations and to have a regime of punitive damages that brings about change to the activity of infringement, such that infringers are transformed in the knowledge that the activity will not bear fruit and they will receive a penalty which deprives them of their gains. That in itself, may bring about the deterrence that is required by the application of remedies appropriate to the infringement, such application being structured by guidelines based upon the factors that drive the infringers. By addressing specific deterrence, it can be hoped that general deterrence can be achieved.

Conversely, Hannah Arendt has concluded that no punishment has ever possessed enough power of deterrence to prevent the commission of crimes. On the contrary, whatever the punishment, once a specific crime has appeared for the first time, its reappearance is more likely than its initial emergence could ever have been.¹⁵⁰ With

¹⁴⁵ Foucault (n 144) 3-7.

¹⁴⁶ Foucault (n 144) 82.

¹⁴⁷ Foucault (n 144) 16.

¹⁴⁸ Foucault (n 144) 18.

¹⁴⁹ Foucault (n 144) 36.

¹⁵⁰ See Hannah Arendt, *Eichmann in Jerusalem: A Report on the Banality of Evil* (Penguin 1963).

copyright infringement, punitive penalties may not prevent all illegal activity, but it may help to reduce the incentive. Perhaps the US psychiatrist, Thomas Szasz had the correct view of punitive remedies, stating that 'If he who breaks the law is not punished, he who obeys it is cheated. This, and this alone, is why lawbreakers ought to be punished: to authenticate as good, and to encourage as useful, law-abiding behaviour. The aim of criminal law cannot be correction or deterrence; it can only be the maintenance of the legal order.'¹⁵¹ This principle is true of civil penalties for IP infringement and as the Hargreaves Review pointed out,¹⁵² IP rights cannot succeed in their core economic function, incentivising innovation, if those rights are disregarded. That in the IP context, is the legal order, as ineffective rights equate to no rights at all and that legal order must be upheld. That should be the main purpose of punitive damages, to uphold the legal order by removing the incentive to infringe.

1.15 *Punitive damages as a deterrent*

Polinsky and Shavell¹⁵³ have explored the imposition of punitive damages, which they assert is one of the more controversial features of the American legal system, noting that trial and appellate courts have struggled for many years to develop coherent principles for addressing the questions of when punitive damages should be awarded and at what level. They have used economic reasoning to provide a relatively simple set of principles for answering these questions, given the goals of deterrence and punishment. Focusing on the deterrence objective, they argue that punitive damages ordinarily should be awarded if, and only if, the injurer has a significant chance of escaping liability for the harm that he has caused. When this holds, punitive damages are needed to offset the deterrence-diluting effect of the chance of escaping liability. The authors also consider a deterrence rationale for punitive damages that does not rest on the possibility of escape from liability. That rationale is that punitive damages may be needed to deprive individuals of the socially illicit gains that they obtain from malicious acts. They also consider the tensions between the defendant's conduct and

¹⁵¹ Thomas Szasz, *The Second Sin 'Punishment,'* (ed. Anchor Press 1973).

¹⁵² The Hargreaves Review, (n 5) para 8.1.

¹⁵³ A. Mitchell Polinsky and Steven Shavell, *Punitive Damages: An Economic Analysis*, (1998) *Harvard Law Review*, Vol. 111, No: 4, 869.

the defendants wealth. Polinsky and Shavell conclude that to achieve appropriate deterrence, injurers should be made to pay for the harm they cause, not less, not more. With reference to negligence damages, they give an example of equivalence and harm,¹⁵⁴ with a simple formula to ensure that injurers pay for the harm that they cause: the total damages imposed on an injurer should equal the harm multiplied by the reciprocal of the probability that the injurer will be found liable when he ought to be: the total damages multiplier. Thus, if the probability that the injurer will be found liable is one in four or .25, the multiplier is 1/.25 or 4. If the harm is \$100,000, the formula will result in total damages imposed on the injurer of \$400,000. The authors stress¹⁵⁵ that the level of damages given by this formula is optimal, not only because this level of damages will remedy problems of under-deterrence, but also because it avoids problems of over deterrence, which would arise if the damages exceeded the optimal amount. The excess of total damages over compensatory damages are referred to as *punitive damages*. Therefore, the optimal level of punitive damages from the perspective of deterrence is the level of total damages determined by the formula, less compensatory damages.

Polinsky and Shavell rightly identify that whilst the courts have, as an avowed goal, the achievement of proper deterrence, it follows from the logic of deterrence theory, that courts should take this punitive damages formula into explicit account, otherwise they cannot responsibly weigh the proper punitive damages amount for achieving deterrence against the proper amount for achieving the other purpose of punitive damages, punishment.¹⁵⁶ The authors are correct in their assessment of the manner in which the courts determine punitive damages. They do not reflect any in clear manner the formula that achieves optimum deterrence and although they consider the magnitude of harm in the assessment process, they do not use harm as the base to be multiplied in an appropriate damages multiplier.¹⁵⁷ The courts take harm into account in a rather vague way, through the application of the general principle that punitive damages should bear a reasonable relationship to compensatory damages. They fail to explain what this relationship should be and even when they identify a ratio of

¹⁵⁴ Polinsky and Shavell (n 153) 889.

¹⁵⁵ Polinsky and Shavell (n 153) 890.

¹⁵⁶ Polinsky and Shavell (n 153) 896, 897.

¹⁵⁷ Polinsky and Shavell (n 153) 897.

punitive damages to compensatory damages that they find excessive, they do not supply a basis for selecting the particular ratio identified. The authors also consider that the reprehensibility of the defendant's conduct should not be taken into account for the purpose of achieving optimal deterrence, except when the defendant is an individual who is motivated by malice¹⁵⁸ and whose gains are not included in social welfare, nor should account be taken of a defendant's wealth, unless the gains from committing the act are socially illicit. Further, it is argued that with risk averse injurers, without access to liability insurance, appropriate deterrence will be achieved with a lower level of damages than if they are risk neutral. It is assumed that poor individuals are more risk averse than wealthy ones, therefore punitive damages will be lower for poorer individuals. However, even for the wealthiest individuals, the punitive damages should not exceed the level determined by the stated formula.¹⁵⁹

If these arguments are applied to IP damages, it is logical to assume that an infringing individual of limited means would be deterred more by punitive damages than a corporate body or organised crime ring. It is also more likely that commercial level infringers operating online, will have a greater chance of escaping liability than an inexperienced individual infringer and a greater deterrent will be provided by punitive damages. It will be subsequently argued that the court should retain a discretion in the application of punitive damages, but within a set of guidelines that reflect the *harm* caused by the infringement, which would include factors such as the financial loss to the right holder and any reputational damage. It will also be argued that factors such as the infringer's gain and flagrancy should be taken into account.

1.16 *Identifying the type of offender*

It is important to consider here, the type of offender that an infringer represents. Classical criminology, which is derived from Bentham and Beccaria¹⁶⁰ is rooted in the concept of individuals being free willed and able to weigh the potential pleasures

¹⁵⁸ Polinsky and Shavell (n 153) 910.

¹⁵⁹ Polinsky and Shavell (n 153) 913.

¹⁶⁰ Beccaria (n 115); Bentham (n 119).

against the gains of an action. Beccaria's 1764 work,¹⁶¹ *On Crimes and Punishment*, considered that the purpose of punishment, which should be proportionate, legislated, prompt and certain, public and necessary, is to act solely as a deterrent. This way of thinking can be applied to the IP infringer, who weighs up the risks and benefits of the infringement and acts accordingly. Emile Durkheim¹⁶² believed that crime is a normal, functional aspect of society and is considered normal because it is found in all societies and that it is functional because it establishes the boundaries for morality. As Bohm notes¹⁶³ individuals would be unaware of acceptable behaviour if crime did not exist. Crime is also functional because it unites people against it, thereby creating social solidarity.¹⁶⁴ Interestingly, Durkheim cultivated his ideas in a society that is not dissimilar to today. The world was in a period of social change, technological change and the rise of capitalism, including the industrial revolution and the erosion of community. He focused on the increasing forced division of labour separating individuals into occupational specialties, signifying a breakdown of the fundamental bonds which united individuals into a collective social order. If one considers the social order in the third decade of the 21st century, it must be set against a backdrop of the Brexit Referendum in 2016, the social and financial recovery from the Covid 19 Pandemic of 2020, the Russian invasion of Ukraine and the cost of living crisis, that followed those situations. There is a rise of populism and a technological revolution created by the expansion of the internet and the reliance upon remote access to workplaces and social interaction, again created by the isolation of the pandemic. The world has become an uncertain and unfamiliar place, with apprehension about the rise of artificial intelligence and its potential effect upon employment and society and there is arguably social disorganisation, which could result in changes to acceptable boundaries of morality. The 2022 cost of living crisis, which remains ongoing in 2023, may have two outcomes in respect of IP infringement. The first, is that the squeeze on income may lead individuals to engage in infringing activities in order to obtain financial benefit, but secondly and conversely, it may make them more fearful of deterrent penalties if apprehended.

¹⁶¹ Beccaria (n 115).

¹⁶² Emile Durkheim, *The Rules of Sociological Method*, (New York: Free Press [1985] 1964).

¹⁶³ R.M. Bohm, *A Primer on Crime and Delinquency Theory* (2nd ed. Stamford, CT: Wadsworth 2001).

¹⁶⁴ Durkheim *Sociological Method* (n 162).

1.17 Chicago School and Merton's Strain Theory

In the 1930's two aspects of criminology had emerged; the Chicago school of thought and Merton's strain theory.¹⁶⁵ These theories raised important issues and challenged the earlier theories that crime was caused by individual or genetic factors. The Chicago school of thought was also known as the ecological perspective, or theory of social disorganisation. The Chicago school evolved there, because in the late 19th and early 20th centuries, the city was desperate for answers in response to the exponentially growing problems of delinquency and crime. Total chaos reigned in Chicago at that time and seeking a solution became the main focus there.¹⁶⁶ The city was in the process of experiencing rapid social changes, in part derived from housing issues, poverty and strains on institutions, with ongoing concerns about keeping the city stable. The Chicago theory took a social positivism stance and was highly influenced by the work of Emile Durkheim.

Durkheim believed that anomie, or normlessness, the breaking down and blurring of societal norms, which regulate individual conduct, occurs when a society undergoes rapid social change and people become unsure of what society's norms and values are.¹⁶⁷ Durkheim was of the opinion that in modern societies there was agreement or consensus over society's norms and values, which resulted in social order and stable societies and this occurred because society's institutions of education and religion successfully implemented social control.¹⁶⁸ Durkheim saw the role of society as regulating the passions and expectations of its members and as society changes rapidly, those norms become unclear and anomie results. With their goals unregulated by society, individual aspirations become limitless and deviance results. Individuals

¹⁶⁵ Lilly, J.R. Cullen, F.T. & Ball R.A., *Criminological Theory: Context and Consequences*, (3rd ed. Thousand Oaks, CA: Sage 2002).

¹⁶⁶ See Thomas J. Bernard, *The Cycle of Juvenile Justice*, (New York: OUP 1992) for insight into the early history of Chicago.

¹⁶⁷ Emile Durkheim, *Suicide: A Study in Sociology*, (The Free Press, New York 1897)

¹⁶⁸ Durkheim *Suicide* (n 167).

stop aspiring to achieve only what is realistic for them to achieve.¹⁶⁹ What follows is a societal breakdown in norms around achievement that leads to deviance.

Robert Merton extended the theory of anomie to the United States and argued that anomie is not simply about unregulated goals, but a broken relationship between cultural goals and the legitimate means of accessing them.¹⁷⁰ He argued that everyone in the United States was socialised to believe that their possibilities, regardless of their circumstances, were limitless and that they should desire success on a large scale. However, society restricts or completely eliminates access to approved modes of acquiring these symbols for a considerable portion of that population.¹⁷¹ The lower classes may share the cultural goal of success, but are limited by a lack of education and job opportunities and this mismatch between goals and the reality of opportunity for these lower classes creates anomie and deviance. The relationship between the cultural goals of the United States and the means of accessing them is dysfunctional because there are obstacles for a large amount of the population to achieve success on a large scale.¹⁷²

Merton's Strain Theory identified five responses to anomie, three of which can be classed as deviant. These five factors have the characteristics of either accepting or rejecting cultural goals, or accepting or rejecting the legitimate means of achieving them. The first response is *conformity*, which is non deviant and demonstrated by a person accepting the cultural goals of a society and using the legitimate means to achieve them. This situation arises where an individual seeks betterment via a university education or professional qualification. The second response is *innovation*, where an individual accepts the cultural goal of his society but rejects the institutional means of acquiring it and may turn to crime to achieve gains. *Ritualism* is achieved when an individual accepts the goals of his society but nevertheless, pursues a

¹⁶⁹ R L Cloward. & L E Ohlin, *Illegitimate Means and Delinquent Subcultures: Social Deviance: Readings in Theory and Research*, (5th ed. Upper Saddle River, N.J: Pearson/Prentice Hall 1960), 78.

¹⁷⁰ Robert K Merton, Social Structure and Anomie, *American Sociological Review* (1938) 3, 672-682; In Robert K Merton (ed), *Social Theory and Social Structure*, The Free Press, New York 185-214; Robert Merton, Continuities in the Theory of Social Structure and Anomie, In Robert Merton *Social Theory and Social Structure*, (ed. The Free Press, New York 1957) 215-248.

¹⁷¹ Merton, *Social Structure* (n 170) 672-682.

¹⁷² See M. Inderbitzin, K.A. Bates, R.R. Gainey *Deviance and Social Control: A Sociological Perspective* (Sage Publications 2016).

legitimate path to proceed in life. This is exemplified by an individual who forges a path in low paid and low status employment, in acceptance that they will never achieve a high level of money and success. The fourth response is *retreatism*, where an individual has rejected both the goals of his society and the legitimate means of achieving them. Merton describes these people as “in the society but not of it.”¹⁷³ Such individuals are totally outside the system of society’s goals and achievement. The final response is *rebellion*. Individuals who rebel, are those who seek to change the system in their society to conform with their own goals and means of achieving them. They replace the dominant cultural goal of wealth attainment and replace it with another goal. An example being of engaging in violent activity for political gains, as opposed to financial gains.

Messner and Rosenfeld¹⁷⁴ have argued that the distinctive patterns and levels of crime in the United States are produced by the cultural and social organisation of American society, with the country exerting strong pressures and cultural goals, to obtain success through wealth, known as the American Dream, whilst having weak restraints on how such wealth can be obtained. This contributes to crime by encouraging people to seek out all means, illegal or otherwise to achieve America’s cultural goal of financial success. The authors outline four criticisms of Merton’s theory, which are that it may be wrong to assume that all Americans share the same cultural goals, as individuals may prioritise other goals.¹⁷⁵ The theory also has difficulty explaining deviance amongst the privileged classes, such as a wealthy individual who embezzles funds, but who has already attained the cultural value of financial success. Messner and Rosenfeld also note that Merton fails to define anomie with precision and they disagree with him that equal opportunity is a realistic solution to crime.¹⁷⁶ In response to their criticisms, they developed the Institutionalised Anomie Theory.¹⁷⁷ In this theory, institutions guide the actions of individuals and people affected by the institutions choose goals and ways of obtaining them, or ends and means. Societies are

¹⁷³ Robert Merton, *Social Structure* (n 170) 185-214.

¹⁷⁴ See S F Messner, R Rosenfeld, *Crime and the American Dream*, (4th ed. Thompson, Belmont 2007).

¹⁷⁵ L.R. Muftic, Advancing Institutional Anomie Theory: A Microlevel Examination Connecting Culture, Institutions and Deviance, 2006 *International Journal of Offender Therapy and Comparative Criminology*, 50 (6), 630-653.

¹⁷⁶ Messner and Rosenfeld *American Dream* (n 174) 630-653.

¹⁷⁷ S.F. Messner and R Rosenfeld, Institutions, Anomie and Violent Crime: Clarifying and Elaborating Institutional-Anomie Theory, (2008) *International Journal of Conflict and Violence (IJCIV)*, 2(2), 163-181.

comprised of institutions and the theory claims that societies with high levels of crime are ones where the institution of economy has the highest priority. As economics and wealth acquisition take precedence over every other institution, individuals resort to any means necessary to meet the cultural goal of obtaining wealth, even if this causes harm to other institutions by going against norms. When the economy is the dominant factor, non economic institutions become weaker and people feel less constrained by their norms, especially those written as laws. This results in high levels of anomie and crime.

The Chicago School of thought, or criminology, represented the influence of the emerging discipline of sociology on criminology, which had the effect of shifting the emphasis from individual explanations for crime towards an understanding of social ecologies of criminal behaviour. The Chicago theory has also been known as the ecological perspective or the theory of social disorganisation and it took a social positivism stance, with theories by Robert Park, Ernest Burgess, Robert Merton, Clifford Shaw and Henry McKay.

Coser¹⁷⁸ notes that Robert Park had considered that an in-depth scientific study of social problems in urban neighbourhoods was a requirement for bringing about social improvement and his approach introduced the concept of human ecology into sociology. Human ecology, like botany and animal ecology, focuses on the relationship between plants and animals and their natural habitat; the natural habitat of the human being is the city.¹⁷⁹ Therefore, a village, town, city or nation, may be studied from the standpoint of adaptation, struggle for existence and survival of its individual members in an environment created by the community as a whole. Park's studies led to his belief that local communities were a primary socialisation mechanism which enabled the individual to integrate into society and conventional values were passed on via primary groups and relational networks. In large cities, where populations are unstable and unemployment is high, intimate networks between primary groups were at risk of being undermined, which weakened collective morality. The declining forces

¹⁷⁸ Lewis Coser, *Masters of Sociological Thought: Ideas in Historical and Social Context*, (San Diego: Harcourt 1977) 366-367.

¹⁷⁹ Robert E Park, *Introduction to the Science of Sociology* (University of Chicago Press [1921] 1929).

of traditional institutions, such as family and school would eventually result in an increase in crime.¹⁸⁰ He stated that all social problems turn out to be problems of social control.¹⁸¹

Park, Burgess and McKenzie¹⁸² referred to situations where there was environmental disorganisation localised in very specific areas of the city which were the economically deprived areas adjoining the financial heart of the city with a concentration of immigrants, people on low incomes and strikingly high levels of population mobility. For many inhabitants, these neighbourhoods fulfilled a 'transit function' in their fight to acquire more living space. The high mobility rate resulting from the 'transit function' of such neighbourhoods was considered to impede the ability of self regulation. Social disorganisation was ultimately seen to be situated in impoverished areas around the urban centre. Clifford Shaw and Henry McKay¹⁸³ built upon the work of Park and Burgess¹⁸⁴ and provided empirical evidence of an ecological relationship between neighbourhood characteristics and juvenile delinquency.¹⁸⁵ The authors, along with Zorbaugh and Cotrell¹⁸⁶ were consistent in asserting that the geographical concentration of delinquent young people decreased proportionately the further one moved from the central business district and this concentration was highest in the deteriorated areas around the city centre. This was seen as empirical evidence for the assumption that delinquency was linked to the social environment of the location of the residence rather than in the individual's genetic constitution.

There have subsequently been many criticisms of the ecological school of thought.¹⁸⁷ These included factors such as the fact that traditional ecological studies fail to

¹⁸⁰ Park, *Science of Sociology* (n 179).

¹⁸¹ Park, *Science of Sociology* (n 179) 785.

¹⁸² Robert E. Park, Ernest W. Burgess, Roderick D. McKenzie, *The City: Suggestions for Investigation of Human Behaviour in the Urban Environment*, (University of Chicago Press [1925] 1967).

¹⁸³ Clifford Shaw and Henry D. McKay, *Juvenile Delinquency and Urban Areas* (University of Chicago Press [1942] 1969).

¹⁸⁴ Park, Burgess and McKenzie, *The City*, (n 182)].

¹⁸⁵ Shaw, Clifford and McKay, *Juvenile Delinquency* (n 183).

¹⁸⁶ Clifford Shaw, FM Zorbaugh, Henry McKay and S Cotrell, *Delinquency Areas, A Study of the Geographic Distribution of School Truants, Juvenile Delinquents and Adult Offenders In Chicago*. (University of Chicago Press 1929).

¹⁸⁷ For a detailed overview of the shortcomings of the ecological theory, see for example, Anthony Bottoms and P Wiles, "Environmental Criminology," *The Oxford Handbook of Criminology*, 305-360. (Oxford Clarendon Press 1997); Robert Bursik, 'Social Disorganisation and Theories of Crime and Delinquency: Problems and Prospects.' 1988 *Criminology*, 26: 519-551.

empirically distinguish social disorganisation from the structural characteristics that caused it,¹⁸⁸ as well as Merton's strain theory which considered the role of economic deprivation and the responses to structural strains in society rather than social conditions in urban communities. More recent literature has focused on the concepts of social capital which emphasises the importance of different types of social ties as sources of human capital for individuals and communities, consisting of individuals. This is based on a belief that social capital is a community characteristic that can be described as a collective good that fosters both informal and formal aspects. The shared norms and values within a community are beneficial for the community, whilst social capital also refers to social relationships that are good for the individual.¹⁸⁹ Collective efficacy asserted by Robert Sampson,¹⁹⁰ stresses the importance of the community being able to solve its commonly identified problems such as crime and safety.

Bohm asserts¹⁹¹ that the more unevenly wealth is distributed in society, the more apparent are class struggles and exploitation. Clarke and Cornish¹⁹² also assert that individuals are influenced by many factors such as intelligence, family upbringing, gender, neighbourhood, status and temperament. Criminal decision making has the intention to benefit the offender. It would be difficult to argue that copyright infringement is limited to individuals who are without financial means and of a lower social status. Copyright infringement frequently involves cases whereby the owner of a rival business uses photographic evidence belonging to another and perhaps more successful business, in order to bolster a less successful or failing business. Greed may be more prevalent than need and in such cases, punitive financial deterrents may be of greater benefit.

¹⁸⁸ Bursik *Social Disorganisation* (n 187).

¹⁸⁹ See Pierre Bourdieu, "The Forms of Capital." In *Handbook of Theory and Research for the Sociology of Education*, 1986, 241-260. New York: Greenwood, James S Coleman, "Social Capital in the Creation of Human Capital," *American Journal of Sociology*, (1998) 94 (Supplement): 95-120; Robert Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Touchstone 2001).

¹⁹⁰ Robert J Sampson, *Great American City: Chicago and the Enduring Neighbourhood Effect* (University of Chicago Press 2012).

¹⁹¹ R M Bohm, *A Primer on Crime and Delinquency Theory*, 2nd Ed. Stamford, CT, (Wadsworth 2001).

¹⁹² R Clarke & D Cornish Rational Choice, in R. Paternoster & R. Bachman, *Explaining Criminals and Crime: Essays in Contemporary Criminological Theory*, 23-42, (ed. Roxbury 2001).

In addition to the rational choice theory of deterrence, there are other influencing factors.¹⁹³ Those factors include the assumption that criminals will engage in illegal activity unless some external factor exists to discourage such behaviour, as well as the expansion of deterrence beyond criminal penalties, such as non legal costs.

Braithwaite¹⁹⁴ suggests that the potential for shame and loss of respect associated with being apprehended for engaging in criminal behaviour is a major influence in the rational decision making process. Stafford & Warr¹⁹⁵ and Piquero & Paternoster¹⁹⁶ note that the two types of deterrence, specific and general, operate on two separate populations: specific deterrence affects the punished offender and general deterrence affects the unpunished would-be offender who somehow witnesses or vicariously experiences punishment. Stafford & Warr argue that the basic concept of deterrence is concerned only with the effects of being punished and that the potential effects of avoiding punishment for criminal behaviour are overlooked. They recast general deterrence as the “deterrent effect of indirect experience with punishment and punishment avoidance” and specific deterrence as the “deterrent effect of direct experience with punishment and punishment avoidance.” Therefore, an individual’s direct and indirect experience with punishment will increase his perception of the certainty and perhaps severity of punishment which, in turn, will decrease the likelihood of future offending. Conversely, direct and indirect experience of avoiding punishment will increase the individual’s future tendency to offend by diminishing the perceived certainty of punishment. Stafford & Warr assert¹⁹⁷ that any criminal act will result either in punishment or punishment avoidance and that it is dubious to argue that only the former impacts subsequent behaviour. Rather, avoiding formal sanctions conveys substantial information about the perceived certainty of punishment.

1.18 *Applying deterrence to civil punitive damages*

¹⁹³ See T F Pratt, K Cullen, L Belvins, K R Daigle and T. Madensen, The Empirical Status of Deterrence Theory: A Meta-analysis. In F.T. Cullen, J.P. Wright, & K.R. Blevins, *Taking Stock: The Status of Criminological Theory*, (ed. New Brunswick 2006).

¹⁹⁴ J Braithwaite, *Crime, Shame and Reintegration*, (Cambridge University Press 1989).

¹⁹⁵ M C Stafford and M Warr, A Reconceptualisation of General and Specific Deterrence, *Journal of Research in Crime and Delinquency*, 1993 30, 123-135.

¹⁹⁶ A Piquero and R Paternoster, An Application of Stafford and Warr’s Reconceptualisation of Deterrence to drinking and Driving, 1998 *Journal of Research in Crime and Delinquency*, 35, 3-39, 3.

¹⁹⁷ M C Stafford and M Warr (n 195) 125.

These arguments must be applied in the context of the imposition of civil punitive damages, rather than criminal penalties, where there may be more public awareness of penalties imposed in a criminal setting. It may be reasonable to assume that the general public do not follow IP cases in the civil courts, save for the high profile cases, such as the recent claim involving Ed Sheeran¹⁹⁸ the popular singer, when he successfully defended a claim asserting that he had copied his song *The Shape of You*. The public, unlike the legal profession and those with particular interest in such proceedings, are not interested in the amount of damages awarded to right holders in the High Court or in the IPEC. In order to act as a deterrent, the public need to be made aware of the fact that punitive damages will be awarded where the case demands it. This will require the publication of damages awards and a public interest campaign to raise awareness. This may then result in the deterrent effect of indirect experience and punishment avoidance. This issue highlights that an important component of deterrence is that of perceptual deterrence.¹⁹⁹ Empirical deterrence literature has focused upon the way in which crime responds to particular policy issues, such as the level of policing or the punitive level of sanctions and it is important to assess the extent to which potential offenders are aware of changes in policy.²⁰⁰

Perceived deterrence involves issues such as the level of threat communication, the degree to which the certainty or severity of the sanction is communicated or advertised to the public, as well as the individuals' perceived risk of being apprehended and punished²⁰¹ and how they update their risk perceptions in response to experience. One of the most important questions for perceptual deterrence is the degree of correspondence between actual and perceived risks. Chalfin and McCrory²⁰² point out that if perceptions closely mirror reality, then using policy shocks to learn about the magnitude of deterrence is straightforward. They use as an example, a policy that increases the number of undercover police officers who are assigned to patrol a transit system in a city, a policy, which announced or unannounced, does not

¹⁹⁸ *Edward Sheeran v Sami Chokri* [2022] EWHC 827 (Ch).

¹⁹⁹ See Robert Apel, "Sanctions, Perceptions and Crime: Implications for Criminal Deterrence." 2013 *Journal of Quantitative Criminology* 29 (1): 67-101.

²⁰⁰ Gordon P Waldo and Theodore G. Chiricos, "Perceived Penal Sanction and Self Reported Criminality: A Neglected Approach to Deterrence Research," *Social Problems* (1972) 19 (4): 522-40.

²⁰¹ Robert Apel and Daniel S. Nagin, 'General Deterrence: A Review of Recent Evidence' in *Crime and Public Policy*, 411-36 (4th ed. OUP 2011)

²⁰² Chalfin and McCrory (n 126) 11.

easily reach the awareness of potential offenders. It is therefore difficult to see how deterrence will accrue, unless the offenders begin to hear about the policy via acquaintances who have been arrested, or by learning that undercover officers have made arrests. In those circumstances it is likely that deterrence will be generated after a substantial temporal lag. Alternatively, a well advertised policy to increase the number of undercover police, or a highly visible change in the number of uniformed officers would generate a greater deterrent effect, even if the actual intervention is no different.

Another aspect of this research is based upon whether offenders change their risk perception in response to past arrest and there is literature that finds robust evidence between more frequent arrest and a higher perceived probability of capture.²⁰³ Piquero and Pogarsky 2002²⁰⁴ have undertaken research which suggests that an individual risk perception is also informed by the experience of acquaintances of offenders, although Chalfin and McCrory²⁰⁵ raise a concern that this research fails to discern cause from correlation, as it is plausible that the more successful offenders have lower perceived arrest probabilities for reasons that are a function of personality and largely unrelated to experience. They point out that individuals change their prior risk perceptions on the basis of whether or not they are apprehended in an earlier period, with robust evidence that risk perceptions are sensitive to actual experience²⁰⁶ early in one's criminal career, with the deterrence value of an arrest declining with experience. The perceptual deterrence literature provides several reasons to be optimistic that meaningful deterrence effects can exist and can be particularly salient

²⁰³ Raymond Paternoster and Alex Piquero, "Reconceptualizing Deterrence: An Empirical Test of Personal and Vicarious Experiences," *Journal of Research in Crime and Delinquency*, 1995 32 (3): 251-86; Stafford and Warr's Reconceptualization of Deterrence: Personal and Vicarious Experiences, Impulsivity and Offending Behaviour." 2003, *Journal of Research in Crime and Delinquency*, 39 (2): 153-86. Stephanie E Carmichael and Alex R. Piquero, "Deterrence and Arrest Ratios," 2006 *International Journal of Offender Therapy and Comparative Criminology*, 50 (1): 71-87.

²⁰⁴ Piquero and Pogarsky (n 203).

²⁰⁵ Chalfin and McCrory (n 126) 12.

²⁰⁶ Greg Pogarsky. Alex R. Piquero and Ray Paternoster, "Modelling Change in Perceptions about Sanction Treats: The Neglected Linkage in Deterrence Theory." 2004 *Journal of Quantitative Criminology* 20 (4): 343-69; Greg Pogarsky, Kim KiDeuk and Ray Paternoster, "Perceptual Change in the National Youth Survey: Lessons for Deterrence Theory and Offender Decision-Making." 2005 *Justice Quarterly* 22 (1): 1-29.; Ross L Matsueda, Derek A Kreager and David Huizinga, "Deterring Delinquents: A Rational Choice of Theft and Violence." 2006 *American Sociological Review* 71: 95-122.; Shamena Anwar and Thomas A. Loughran, "Testing a Bayesian Learning Theory of Deterrence Among Serious Juvenile Offenders, 2011, *Criminology*, 49 (3): 667-98.

among younger offenders who have yet to commit to a criminal career.²⁰⁷ The experience of arrest does lead to an increase in the perceived likelihood of being apprehended for a future crime. Using the literature as applied to the IP situation, it suggests that early deterrent intervention may stall infringing activities, especially if the infringers are penalised at an early stage, such that they do not have the opportunity to become bold because they have not yet been apprehended or received a punitive damages award against them.

A study in 2002, by Langan and Levin²⁰⁸ illustrated that out of nearly 300,000 individuals released from prison in 1994, more than two thirds were rearrested and over half were back in prison within three years of release. In the UK, approximately half of all crimes committed, were committed by individuals with criminal records.²⁰⁹ Repeat offending is a major social problem and its punishment is challenging for the optimal deterrence theory.²¹⁰ In the IP enforcement context, it can be argued that as civil damages are not widely reported in a way that brings them to the attention of would be infringers, there are fewer informal sanctions such as societal stigma. On that basis a greater deterrent may be achieved by imposing substantial punitive damages for all suitable infringing activities, so that the offender is aware that further transgressions will result in a high level of damages. Unlike criminal penalties, the infringers' previous actions may not be known to the court, so that reduces the possibility of increasing levels of award up to the optimum punitive award. In such a scenario, the availability of pre-established damages according to guidelines, should be applied according to factors such as flagrancy, relating to each individual case. Their application should also be certain and swift.

Beccaria stated that "The swifter and closer to the crime a punishment is, the juster and more useful it will be."²¹¹ Raskolnikov notes that celerity, or swiftness is 'missing in

²⁰⁷ Chalfin and McCrory (n 126) 12.

²⁰⁸ Patrick A Langan and David J. Levin, *Recidivism of Prisoners Released in 1994*, 2002 Special Report, Bureau of Justice Statistics. Washington, DC: US Department of Justice.

²⁰⁹ Wickramasekera, Nyantara, Judy Write, Helen Elsey, Jenni Murray and Sandy Tubeuf, "Cost of Crime: A Systematic Review." 2015, *Journal of Criminal Justice* 43:218-28.

²¹⁰ Alex Raskolnikov. *Criminal Deterrence: A Review of the Missing Literature*, 2020, 28 Sup. Ct. Econ. Rev 1 21. https://scholarship.law.columbia.edu/faculty_scholarship/2660.

²¹¹ Beccaria (n 115) 48.

action' in the literature.²¹² Becker did not refer to it in his seminal work in 1968 and the three foundations of deterrence; certainty, severity and celerity are missing the celerity aspect. It would be difficult to disagree with Beccaria's theory that when the punishment follows the crime almost immediately, it leads to "the stronger and more lasting...association in the human mind between the two".²¹³ Pratt and Turanovic²¹⁴ rightly state that the criminal justice system is not built for speed. This can be said about the civil justice system too. Whilst the IPEC court has evolved to incorporate a swifter and more streamlined litigation process, trials can take many months to come to fruition. Conversely, for civil justice however, with represented litigants, paying extended legal fees to IP lawyers, the longer the case continues, the more costly it is to the losing party, even where costs are capped.

1.19 Conclusion

Raskolnikov has considered the literature and asked two questions: Does deterrence work? and does the likelihood of punishment matter?²¹⁵ He discusses the Becker model²¹⁶ of deterrence, with its core prediction that expected sanctions deter future violations and higher expected sanctions deter more and he considers whether longer prison sentences deter more crime. Referring to the difficulty of separating the deterrent effect of prison from its incapacitating effect, he concludes that it is a question that is difficult to answer and remains a first order issue. Compliance rates are dramatically higher when the expected cost of non compliance is greater. He also concluded that deterrence can work, but it that does not mean that it always works. In answering whether the likelihood of punishment matters, he assesses from the studies²¹⁷ involving tax and environmental enforcement, there is strong evidence that in principle people pay attention to the probability of incurring the cost of non compliance. Chalfin and McCrory²¹⁸ conclude that while evidence is building that swift

²¹² Raskolnikov (n 210) 39.

²¹³ Beccaria (n 115) 49.

²¹⁴ Travis C Pratt and Jillian J. Turanovic, "Deterrence, Choice and Crime: Contemporary Perspective." In *Advances in Criminological Theory*, Daniel S. Nagin, Frances T. Cullen and Cheryl Lero Jonson, (2018), vol. 23 187-210, 198.

²¹⁵ Raskolnikov, (n 210) 32-35.

²¹⁶ Raskolnikov, (n 210) 32-35.

²¹⁷ Raskolnikov, (n 210) 35.

²¹⁸ Chalfin and McCrory (n 126) 41.

and certain sanctions can deter offending at dramatically lower costs for both society and offenders, swift and certain sanctioning only works if offending can be reliably detected in the first place. In IP infringement, this remains an issue, especially for online infringement. Clearly, civil damages differ from criminal penalties such as incapacitation, which physically removes the offender from society. In order to be effective, punitive damage awards need to be a certain and swift outcome following infringement and their availability requires adequate publicity in order to deter. In order to assess whether the damages regime in the UK provides an adequate deterrent, it is first necessary to analyse the international minimum standard of remedies for IP infringement required by international law and the following chapter goes on to consider this standard.

Chapter Two

International Legal Framework

2.1 Introduction

This chapter will explore the international framework that is the starting point in the legal governance for the awarding of damages for copyright infringement in the UK. The minimum international standard is set out in the Trade Related Aspects of Intellectual Property Rights, or The TRIPS Agreement of 1994.²¹⁹ The relevance and applicability of the other relevant Free Trade Agreements (FTA's), to which the UK is a signatory, will also be considered. These are the Trade and Co-operation Agreement 2020 (TCA)²²⁰ which was agreed following Brexit; The Comprehensive and Progressive Agreement for Trans-Pacific Partnership 2018 (CPTPP)²²¹ which the UK has recently become a signatory to and the UK-Australia Free Trade Agreement 2021 (UKATA)²²². The chapter will then discuss these FTA's in the context of Directive 2004/48/EC, which provides for, in Article 13, the provisions for awards of damages for copyright infringement and which affect the applicability of section 97 of the Copyright, Designs and Patents Act 1988. Finally, the chapter will identify whether there are any minimum and maximum requirements for an award of damages under international law and how any such requirements affect UK law. It is necessary to consider the international framework for the imposition of damages in order to assess the obligations imposed upon the UK in the application of such awards, as these need to be compatible with international law, whether compensatory or punitive, for it is only after such an assessment that consideration can be given to whether copyright damages need to have a sufficient punitive element to successfully deter infringement. Marketa Trimble

²¹⁹ Agreement on Trade Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organisation, Annex 1C, 1869 U.N.T.S. 3; 33 I.L.M. 1197 (1994) (The TRIPS Agreement).

²²⁰ TCA 2020 (n 36).

²²¹ CPTPP 2018 (n 36).

²²² UK-Australia FTA, Signed 17 December 2021, (entered into force 31 May 2023). The Treaty will be published in the Treaty Series of command papers in due course. [CS Australia No.1/2022], (UKATA).

has considered the issue of IP law in FTA's²²³ and has analysed a number of FTA's concluding that bilateral and regional treaties, including FTA's, can move international law forward and can do so in a productive and beneficial manner. She asserts that when TRIPS was concluded, it was a benchmark of countries' agreement on international IP law in the multilateral setting. However, it has remained a static instrument that does not and cannot, reflect the evolution of national IP laws and current thinking about IP law.²²⁴ The world has moved on since 1994 and the law of copyright needs to address the dynamic concerns about piracy that have arisen since the inception of the internet. These require a sufficient punitive element in the international enforcement process. It is also the case that in some international treaties, there are provisions that state that pre-established damages must be sufficient to meet both the compensatory and deterrent functions.²²⁵

2.2 *International treaties and interpretation*

International treaties are domestically effective as a result of three measures. The treaties can be *transposed*, whereby they come into force as a result of direct parliamentary legislation, or prior to Brexit, by incorporation into EU legislation, by *executive action*, whereby the government takes into account the legislation in some manner²²⁶ when applying its decision making process or procedure, or by *interpretation* as between states. Article 31 of the Vienna Convention, states that: 'A treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its and purpose.' Lord Diplock has stated, in *The Jade*²²⁷ 'If there be any difference between the language of the statutory provision and that of the corresponding provision of the

²²³ Marketa Trimble, Unjustly Vilified TRIPS-Plus?: Intellectual Property Law in Free Trade Agreements, 2022, Scholarly Commons, UNLV William S. Boyd School of Law, Scholarly Commons @UNLV Boyd law, 1448.

²²⁴ Trimble, Unjustly Vilified (n 223) 1534.

²²⁵ China-Korea FTA 2015, art 15.24(3); Dominican Republic-Central America FTA, (CAFTA-DR), art. 15.11(8); Trimble (n 223), 1512 and footnote 67.

²²⁶ Geoffrey Care, 'The Judiciary, the State and the Refugee: The Evolution of Judicial Protection in Asylum – A UK Perspective' (2004) 28 Fordham International Law Journal 1421 and David Dyzenhaus, Murray Hunt and Michael Taggart, 'The principle of legality in Administrative Law: Internationalisation as Constitutionalisation' (2001) 1 Oxford University Commonwealth Law Journal 5.

²²⁷ *Owners of Cargo lately Laden on Board the MV Erkowit v Owners of the Eschersheim (The Eschersheim, the Jade and the Erkowit)* [1972] 1 WLR 430 (HL) (*The Jade*) 436.

Convention, the statutory language should be construed in the same sense as that of the Convention if the words of the statute are reasonably capable of bearing that meaning.’ There are a total of 26 treaties relating to IP, which the UK must comply with. These include the Berne Convention,²²⁸ the Paris Convention,²²⁹ The Rome Convention,²³⁰ The Madrid Agreement 1891,²³¹ The Universal Copyright Convention 1952,²³² the WIPO Copyright Treaty; the WIPO Performances and Phonograms Treaty,²³³ The WIPO Beijing Treaty,²³⁴ the WIPO Marrakesh Treaty,²³⁵ COE Convention on Cybercrime²³⁶ and of course the TRIPS Agreement in 1994.²³⁷ TRIPS is the only international treaty to have had any decisions under its own provisions, such as the *China-IPR’s Dispute*.²³⁸ Following Brexit, and the inevitable bonfire of EU legislation, the ECJ will have no direct influence over domestic law. However, the TCA, in its Preamble, refers to the parties to the Agreement, building upon their respective rights and obligations under the Marrakesh Treaty Establishing the WTO on 15 April 1994 (incorporating TRIPS) as well as other multilateral and bilateral instruments of cooperation.²³⁹ As the TCA reflects the terms of the 2004/48/EC Enforcement Directive, the UK will interpret damages provisions in accordance with EU case law and this will be discussed subsequently. Unlike the Berne or Rome Conventions, which hardly express objectives and goals in the Preambles, the TRIPS Agreement expressly sets out its objectives and the Vienna Convention expressly accepts the interpretive force of Preamble and rationale recitals.²⁴⁰

²²⁸ Berne Convention for the Protection of Literary and Artistic Works 1886 (Paris Act 1979) 1161 U.N.T.S. 3, (The Berne Convention).

²²⁹ Paris Convention for the Protection of Industrial Property, 1883, as last revised at the Stockholm Revision Conference, Mar. 20 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305 (Paris Convention).

²³⁰ International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations, 1961, 496 U.N.T.S. 43, (Rome Convention).

²³¹ Madrid Agreement Concerning the International Registration of Marks 1891, 828 U.N.T.S. 389, (Madrid Agreement).

²³² Universal Copyright Convention 1952, as revised on 24 July 1971 943 U.N.T.S. 178. (UCC).

²³³ WIPO Copyright Treaty (1997) 36 I.L.M. 65 (WIPO Copyright Treaty); The WIPO Performances and Phonograms Treaty (1997) 36 I.L.M. 76 (WPPT).

²³⁴ WIPO Beijing Treaty on Audiovisual Performance (2012) BTAP).

²³⁵ WIPO Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired or Otherwise Print Disabled [2013] (Marrakesh VIP Treaty).

²³⁶ COE Convention on Cybercrime 1144 ETS 185 (Cybercrime Convention).

²³⁷ The TRIPS Agreement (TRIPS).

²³⁸ WTO, *China Measures Affecting the Enforcement of Intellectual Property Rights US v China*) WTO Dispute WT/D53262/R, (2009), (*China IPR Dispute*).

²³⁹ The TCA 2020, 19.

²⁴⁰ Vienna Convention on the Law of `Treaties 1969 (1969) 1155 U.N.T.S. 331 (Vienna Convention) art. 31-33.

2.3 *The TRIPS Agreement*

Anthony Taubman has analysed the TRIPS Agreement with a practical, as opposed to an academic approach.²⁴¹ He notes that the TRIPS Agreement was not negotiated as an end in itself, but as a means of bringing greater order, transparency, predictability and even fairness, to the way that governments do business with each other in progressing their interests in IP, especially when those interests are felt to diverge to the point of disputation.²⁴² Taubman considered that TRIPS can be used as much as a shield as a sword, being used to defend domestic policy choices as much as to impose outcomes on others.²⁴³ The establishment of TRIPS coincided with ways of doing business that made it possible to trade purely in the context of knowledge and cultural works, where valuable commercial transactions may be structured in terms of granting access to content, rather than as physical goods changing hands. The Apple iTunes Store was identified as an example of the use of trade in IP *as such*. By 2011, over 12 billion songs were sold by iTunes, with people buying access to digital content and the right to use it, thereby creating a licence, rather than a pure purchase.²⁴⁴ Since 2011, the ‘access only’ model has proliferated, with music streaming and film streaming via *Netflix* becoming the norm. The advent of the *Kindle e-reader* has also resulted in the purchase or rental of books to download and read on a tablet and Apple News allows access to leading newspapers and magazines for a monthly subscription. The cost of this access activity is lower than the purchase of hard copies. It could be argued that such services reduce the need to infringe and therefore illegal activity is more likely to prevail on a commercial scale level for high profit. If that is the case, there needs to be a deterrent effect in the application of civil penalties by way of punitive damages.

The TRIPS Agreement was concluded in 1994 and is not a stand alone agreement. It must be read in conjunction with the Conventions, such as Berne, Paris, Rome, Madrid, the UCC and the WIPO treaties. When TRIPS was signed, neither the proliferation of

²⁴¹ Anthony Taubman, *A Practical Guide to Working With TRIPS*, (OUP 2011).

²⁴² Taubman (n 241) para 30.

²⁴³ Taubman (n 241) para 31.

²⁴⁴ Taubman (n 241) para 32.

the internet nor its effect upon IP infringement could have been envisaged and it may be reasonable to assume that the need for deterrence may not have been as obvious as it is now. The Agreement sets out a minimum international standard of IP protection, which provides flexibility and considerable scope in applying those standards. Member States who are also members of the WTO and therefore signatories to TRIPS, must meet the minimum standards of enforcement set out in Part III of the Agreement. The UK arguably has a strong enforcement regime, with the CDPA 1988 pre-dating TRIPS. However, that Act has been subject to numerous amendments, with reliance upon non UK legislation, such as the Enforcement Directive 2004/48/EC,²⁴⁵ which has impacted upon section 97(2) of the CDPA 1988 in respect of the award of additional damages. Following Brexit, the terms of Article 13 have been reflected in Article 265 of the TCA 2020.

The TRIPS Agreement does not require any specific outcomes, with the requirements being to implement suitable legal procedures and remedies, rather than to apply them in any particular way. Most IP rights never reach the court arena, but if confidence is lacking in whether such rights can be enforced, the IP right in question ceases to have economic value on a commercial basis. IP enforcement becomes a trade issue because the routine commercial scale infringement of IP rights, can amount to effective denial of market access to the extent that those firms rely on IP to compete.²⁴⁶ A lack of systematic enforcement may induce a greater resort to secrecy or restrictive technological measures and frustrate the fulfillment of public policy goals that legislators seek to advance when introducing IP laws.²⁴⁷ For the most part, right holders need to initiate enforcement actions and the government's role is to ensure that reliable, effective and balanced enforcement mechanisms are available for their use.²⁴⁸ There is no obligation upon Member States to implement in their law, more extensive protection than TRIPS requires, but they are free to do so, provided that in doing so, it does not contravene the provisions in the Agreement. This provides a level of flexibility which can be tailored to adapt to the changing face of infringement and it

²⁴⁵ Enforcement Directive 2004/48/EC (n 41).

²⁴⁶ Taubman (n 241) 109.

²⁴⁷ Taubman (n 241) 109-111.

²⁴⁸ Taubman (n 241) 111.

is a minimalist not a maximalist level of enforcement. Therefore, there is no obstacle to the UK providing for punitive damages.

The TRIPS Agreement was the first comprehensive multilateral instrument setting out detailed obligations for domestic enforcement regimes. The perceived lack of effective enforcement obligations, coupled with increasing trade in counterfeit goods was the *raison d'être* for industrialised countries to push for an integration of IP protection into the world trading system.²⁴⁹ However, the TRIPS enforcement provisions have been widely criticized for being primitive, constrained, inadequate and ineffective.²⁵⁰ Also, despite its broad sweep and its unstated aspirations, TRIPS arrived on the scene already outdated, reaching fruition at the same time that the on-line era became irrevocable, yet it made no concessions, not even a nod, to the fact that a significant portion of the IP market would soon be conducted online.²⁵¹ It could also not be foreseen that the Covid 19 pandemic of 2020-21, would accelerate that on-line market by a significant number of years, as non essential retail shops were forced to close. The proliferation of IP online has raised the barrier for infringement and while in the past, private right holders funded enforcement costs through civil litigation, the growing demand for criminalisation and public enforcement have led to a gradual shift of responsibility from private right holders to national governments.²⁵² The TRIPS Agreement makes provision for criminal sanctions and penalties in Article 61 of the Agreement, which are available at least for wilful counterfeiting and piracy on a *commercial scale*. Whilst it is arguable that criminal penalties provide a deterrent to infringement, civil damages would have a deterrent effect if they included a punitive element in the award, which would not be reliant merely on the presence of a commercial scale, but on a series of relevant factors, such as the presence of the requisite intention and the effect of the infringement.

²⁴⁹ Henning Grosse Ruse-Khan, *Criminal Enforcement and Intellectual Property Law*, in *Criminal Enforcement of Intellectual Property: A Handbook of Contemporary Research*, edited by Christophe Geiger, 171 (ed. Edward Elgar 2012) 173.

²⁵⁰ Yu, 'TRIPS and It's Achilles Heel' (n 136) 483.A

²⁵¹ Marci A Hamilton, 'The TRIPS Agreement', *Imperialist, Outdated and Over Protective.* (1996) 29 *Vanderbilt Journal of Transitional law*, 613, 614, 615, 634.

²⁵² Peter K. Yu, 'Why Are the TRIPS Enforcement Provisions Ineffective? 2013 (abridged and adapted from Yu, *Trips and It's Achilles Heel*' (n 136)) 4. Available at <http://scholarship.law.tamu.edu/facscholar/1022>.

The TRIPS Agreement states as its objective: ‘The protection and enforcement of IPR’s should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.’²⁵³ The Preamble states at the outset, that the Agreement is *desiring to reduce distortions and impediments to international trade and taking into account, the need to promote effective and adequate protection of intellectual property rights and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade and recognising to this end, the need for new rules and disciplines concerning the provision of effective and appropriate means for the enforcement of trade related intellectual property rights, taking into account differences in national legal systems.*

Heath and Cotter²⁵⁴ have commentated on the term *enforcement*, which they articulate is considerably new and is not a term that would find equivalence in other languages. Enforcement as understood in the modern sense and by the TRIPS Agreement, does not relate to any acts necessary for *obtaining* an IP right, but for *putting an end to infringing acts* in order to render the IP right effective. The term ‘enforcement’ does not necessarily determine the means of action, which can be civil, criminal or administrative. The manner of the enforcement is also determined by the complexity of the subject matter and the term ‘enforcement’ does not refer to any specific remedy. Whilst TRIPS provides for a number of remedies, it includes the availability of damages in Article 45, which is referred to as compensation, not punishment. Heath and Cotter have analysed the general principles of enforcement set out in Articles 41 and 42 and note that the whole of Part III of the Agreement is devoted to enforcement, with 20 provisions related to enforcement measures.²⁵⁵ They state that the high number of provisions reflect the lack of harmonisation or minimum standards in this area and the diversity in domestic enforcement systems.²⁵⁶ The

²⁵³ TRIPS art. 7.

²⁵⁴ Christopher Heath and Thomas F Cotter, *Comparative Overview and the TRIPS Enforcement Provisions*, in *Patent Enforcement Worldwide: Writings in Honour of Dieter Stauder*, in Christopher Heath (3rd ed. Bloomsbury Publishing 2015), Chapter One, 4, 5.

²⁵⁵ Heath and Cotter (n 254) 10.

²⁵⁶ Heath and Cotter (n 254) 10.

emphasis of the provisions lies in the rules for civil enforcement²⁵⁷ as well as administrative measures by way of border provisions.²⁵⁸ Whilst Article 49 clarifies that infringement can be dealt with administratively under the same rules as laid down for civil procedures, the structure of Articles 42-49 also illustrate that civil enforcement is clearly preferable to administrative enforcement. There is only one provision for criminal enforcement, in Article 61, with the emphasis on wilful infringement of trade mark or copyright on a commercial scale and the authors state that this reflects the experience of developed countries that criminal enforcement does not provide a viable alternative to civil procedure.²⁵⁹

The concept of deterrence is referred to in Article 41(1) of the TRIPS Agreement, which requires Member States to provide a legal framework for effective action against any act of infringement, with such remedies being effective against infringing acts, whilst providing safeguards against abuse. Remedies are also required to constitute a deterrent to further infringement. The provision does not state whether the deterrent effect should be general or specific, but to be effective, the deterrent should prevent further acts by the infringer, whilst deterring the public at large from engaging in similar acts. Article 45, reads as follows:

45.1 The judicial authorities shall have the authority to order the infringer to pay the right holder damages adequate to compensate for the injury the right holder has suffered because of an infringement of that person's intellectual property right by an infringer who knowingly, or with reasonable grounds to know, engaged in infringing activity.

45.2 judicial authorities shall also have the authority to order the infringer to pay the right holder's expenses, which may include appropriate attorney's fees. In appropriate cases members may authorise the judicial authorities to order recovery of profits and/or the payment of pre-established damages even where the infringer did not knowingly, or with reasonable grounds to know, engage in infringing activity.

²⁵⁷ TRIPS art. 42-48, 50

²⁵⁸ TRIPS art. 51-60.

²⁵⁹ Heath and Cotter (n 254) 10.

There is no requirement to provide for punitive sanctions under this provision and the basis of the award being compensation, does not provide the requisite deterrent effect.²⁶⁰ To be a deterrent, the payment of the IP owner's legal expenses, including attorney's fees should be a minimum requirement, rather than the optional provision that it is under Article 45.2. It is unclear in the context of the Agreement, what is considered to be a deterrent, as from an economic point of view, deterrent remedies must be those that go beyond what a lawful user has to invest and if damages are compensatory, rather than punitive, damages alone can hardly serve as a deterrent.²⁶¹ Whilst Article 45.2 of TRIPS does permit the recovery of profits, they are not a sufficient deterrent, given the cost of evidential proof and the fact that they are only depriving the infringer of a financial benefit that he is not entitled to in any event. The UK has yet to legislate for a viable system of pre-established damages, which would provide a sliding scale of damages, to be applied according to the severity of the infringement.

The TRIPS Agreement sets out the remainder of the legal procedural framework in Articles 41.2 to 41.5. These requirements, which are inherent in the UK legal system, are essentially the basis for a fair trial, providing for fair and equitable procedures, which are not unnecessarily complicated or costly or which provide unwarranted delays. Reasoned decisions on a case must be in writing and available at least to the parties involved in the proceedings, without undue delay and be based only upon the evidence which the parties were offered the opportunity to be heard. Finally, the option of a review of judicial decisions, of at least the legal aspects of the initial decisions on the merits of the case must be available. There is no obligation upon Member States to put in place a judicial system for the enforcement of IP rights which is distinct from that for law enforcement in general, nor is there any obligation with respect to the distribution of resources as between enforcement of IP rights and the enforcement of law in general. The UK has gone one step further than the requirements of the TRIPS Agreement, in that the Intellectual Property Enterprise Court (IPEC), sitting at the Rolls Building in London and on Circuit in six legal centres,

²⁶⁰ Heath and Cotter (n 254) 10.

²⁶¹ Heath and Cotter (n 254) 10.

provides for specialist IP judges and an IP Track, with capped damages and costs, as well as a judge led case management system, which deals with the more straightforward IP cases. The IPEC has been very successful and has put in place the procedural framework to have remedies for IP infringement dealt with by IP judges who understand how to apply the provisions of the law and set precedents where there is conflict, for example, between UK and EU law, such as in the application of the Enforcement Directive 2004/48/EC, as it affects the application of the CDPA 1988.²⁶² The legal and procedural framework in the UK therefore appears to be sufficient for the courts to apply a punitive damages regime effectively and in compliance with the right to a fair trial pursuant to Article 6 of the European Convention on Human Rights.

Heath and Cotter²⁶³ in their comparative overview of the TRIPS Agreement, acknowledge the notorious difficulty associated with assessing damages in IP matters, because in most countries, damages are meant to compensate for the injury the right holder has suffered, in line with Article 45.1 of TRIPS, rather than as a punitive award. That has been the position in the UK and this will be explored in a subsequent chapter, along with comparative jurisdictions, but the reported domestic case law on damages awards for IP infringement is limited. Article 45.1 provides for the damages to compensate the right holder for the injury suffered as a result of the infringement,²⁶⁴ a position that Gervais argues is consistent with the common law rule, although calculating this loss is difficult, expensive and time consuming. The injury suffered, can include lost sales, loss of reputation, market confusion and the closure of production sites.²⁶⁵ Such losses can reasonably be described as 'injury' in accordance with Article 45.1, but proving those losses can leave the right holder under compensated where the supporting evidence is not available. Further, even if the damages are awarded which fully compensate for the injury caused by the infringement, these do not necessarily equate to a deterrent, as the infringer may factor in the actual loss sustained. Vander argues that full compensation for the actual damage directly caused

²⁶² See for example, the case of *Absolute Lofts South West London Limited v Artisan Home Improvements Limited*, [2015] EWHC 2608 (IPEC), per Hacon HHJ, and *Phonographic Performance Limited V Raymond Hagan (aka Raymond Edward O'Hagan) t/a Lower Ground Bar and the Brent Tavern* [2016] EWHC 3076 (IPEC).

²⁶³ Heath and Cotter (n 254) 35.

²⁶⁴ Daniel J. Gervais, *The TRIPS Agreement: Drafting History and Analysis* (Sweet & Maxwell/Thompson Reuters 2012) 582.

²⁶⁵ Gervais, *TRIPS Drafting History* (264) 582.

by the infringer, is contemplated by TRIPS, but not so much as to cause 'additional profit.'²⁶⁶ This position is similar to that under the principle of *unjust enrichment* which allows the right holder to claim damages on the basis of what the infringer obtained by using an economic position exclusively allocated to the right holder and especially under the principle of the payment equivalent to the ordinary licensing fee. If the infringer has factored in the possibility of having to pay the basic licence fee that would have been legally due, should they be apprehended, that would not act as a deterrent. This situation is further compounded by the practice of split trials in the UK, which provides an incentive for the infringer to settle after an adverse finding of liability, potentially depriving the right owner of any benefit of punitive damages, were they to be available. It also results in a lack of reported cases by way of precedent. The right holder has the right to claim damages or the infringer's profits and they can make that decision after a perusal of the infringer's documentation.²⁶⁷ It can be argued that by removing the benefit of the infringer's profits, there is a deterrent effect, but it is not an efficacious method of compensation, given the cost and time of its application.

Although the UK case law will be considered in a separate chapter, it is relevant to consider the case of *Gerber Garment Technology v Lectra Systems*²⁶⁸ a leading case on lost profits, in which the court held that as a general principle, the right holder is entitled to recover a foreseeable loss caused by the infringement and not excluded by public policy. The losses include lost profits on lost sales, damages for price erosion and springboard damages,²⁶⁹ the ongoing effect of the infringement, such as global damages and the consequences of the infringing act. This does reflect the full compensation principle under Article 45.1 of TRIPS, but lacks a deterrent effect. The right holder has to prove the existence of infringing articles before loss of sales can be presumed. The evidential requirement for proof of a reasonable commercial exploitation of the right holders products, could produce a comparison of the actual sales with future sales as a basis for the assessment of the loss. Every sale made by the infringer would be treated as a lost sale, with the compensation being treated as a loss

²⁶⁶ See Peter-Tobias Stoll and Others, *WTO-Trade Related Aspects of Intellectual Property Rights* (Martinus Nijhoff Publishers 2009) 721.

²⁶⁷ *Island Records Ltd v Tring International*, [1995] 3 ALL ER 444.

²⁶⁸ *Gerber* (n 56) 452-56.

²⁶⁹ *Ultraframe* (n 55).

of profit. This method benefits the more successful right holders, who are required to have a reasonably large share of the market, with the marketing capacity of for the production of articles creating the lost sales which are the subject of the damages calculation.²⁷⁰ A reasonable royalty will be awarded where the right owner could not have made the sales that the infringer made.²⁷¹ The right holder will be reliant on documentary evidence showing their profit margins, which the court would take into account in assessing an appropriate licensing fee. In the *Gerber v Lectra* case, the royalty was set at 15% on the basis of the right holder making 60% profit from their sales. An account of profits is an equitable remedy at the discretion of the court which has rarely been selected by the right holder, due to the difficult nature of computing the amounts involved, to show a sufficient loss.

The TRIPS Agreement provides an option only for pre-established damages and the UK is not obliged to provide them for infringements and does not provide for them. TRIPS provides the option of pre-established damages in relation to unknowing infringement in Article 45.2, which Vander considers is a way of providing for punitive damages.²⁷² Gervais also argues that punitive damages, whilst not mandatory under the TRIPS provisions, are entirely consistent with the general provisions of TRIPS, so as to further the goals of effectiveness and deterrence.²⁷³ However, Vander disagrees.²⁷⁴ The TRIPS Agreement should have made the provision of punitive damages explicit so that it provided a true reflection of these goals. A classic example of pre-established damages, is the statutory damages in the US²⁷⁵, which provides for damages of between \$750.00 and \$30,000 for each infringing article, but which can lead to extreme results, such as in the case of *Capital Records v Thomas -Rasset*²⁷⁶ where the defendant, who downloaded 24 sound recordings at home using peer-to-peer sharing software, and which were found to be infringing, was ordered to pay an initial award of damages of \$222,000 at \$9,250 per song. On retrial, a second jury awarded \$1,920,000 at \$80,000 per song and after a third retrial which reduced the amount to

²⁷⁰ *Catnic Components Ltd v Hill & Smith Ltd*, [1983] FSR 512.

²⁷¹ Heath and Cotter (n 254) 42.

²⁷² Stoll and Others (n 266) 723.

²⁷³ Gervais, *TRIPS Drafting History* (n 264) 582.

²⁷⁴ Stoll and Others (n 266) 721.

²⁷⁵ 17 U.S. Code §504(c)(1).

²⁷⁶ *Capital Records Inc. v Thomas Rasset*, 692 F.3d 899 (8th Cir 2012).

\$1,500,000 at \$62,000 per song, the subsequent appeal reinstated the original \$222,000. Pre-established damages can be much lower than those awarded in the US. Prior to Article 13 of the Enforcement Directive 2004/48/EC being enacted, many accession countries at the time, imposed a fixed sum for infringement, which was based upon the number of infringing items, which did not provide any deterrent effect. A European Observatory Update on Costs and Damages²⁷⁷ was prepared in the context of the recent implementation of the Enforcement Directive and it set out *inter alia* the status of pre-determined damages across the EU. The report noted that the UK, along with other countries, did not provide for such awards. Other jurisdictions such as Austria, the Czech Republic and Greece, provided for double licence fee awards, suggesting that significant statutory or pre-determined awards are relatively rare.

The UK does permit an award of additional, as opposed to pre-established damages, under section 97(2) of the CDPA 1988, where the court can consider all the circumstances of the case, and in particular, the flagrancy of the infringement and any benefits accruing to the infringer. In *Flogas v Calor Gas*²⁷⁸ a case concerning misused copies of databases, Proudman J. summarised the principles to be applied under section 97(2), which were that flagrancy includes some degree of scandalous or deceitful conduct which includes deliberate and calculated infringement; benefit implies pecuniary advantage in excess of mere damages, but must be interpreted widely and not just in financial terms; deliberate acts are not essential, as carelessness, to the extent of 'couldn't care less' could be sufficient; knowledge of infringement is immaterial and damages awards must do justice in a particular case. This must include sufficient deterrence where necessary.

The criteria under section 97(2) created what could be argued as falling short of deterrence by merely providing a regime that enhances the compensation principle in the *General Tyre Case*,²⁷⁹ on the basis of a *punitive element* rather than a *punitive*

²⁷⁷ European Observatory Update on Costs and Damages, (updating original 2010 Report, 'Damages in intellectual Property Rights,') available at http://ec.europa.eu/internal_market/ipenforcement/docs/damages_en.pdf. Update (undated) at euipo.europa.eu.

²⁷⁸ *Flogas Britain Ltd v Calor Gas Ltd* [2013] EWHC 3060 (Ch).

²⁷⁹ *General Tyre* (n 9).

purpose. The principle was considered by Pumfrey J, in the case of *Phonographic Performance Ltd v Reader*²⁸⁰ The case concerned an application to commit the defendant for contempt of court, for playing copyright recordings in public without a licence. The defendant conceded that he would pay unpaid licence fees as well as taking out a licence to continue playing the recordings. *PPL* sought additional damages under section 97(2) of the CDPA 1988 on the basis of their incurrance of substantial expense by way of the defendant's failure to obtain a licence. Pumfrey J acceded to the award, with the relevant principle being that an award of statutory additional damages could include a punitive element, provided that the purpose of the award was not solely to punish the defendant.²⁸¹ This position is in contrast to Article 13 of the Enforcement Directive 2004/48/EC which will be considered below. It is analogous to the argument put forward by Thomas Galligan²⁸² who has discussed enhanced, or augmented awards, whereby the awards are not imposed for punishment, but to force actors to accurately take account of all the costs of their actions, rather than as a mere punishment.

Dan Markel²⁸³ notes that in the last two decades (before the 1990's), the US Supreme Court has emphasised that punitive damages should be principally understood as 'quasi-criminal', private fines designed to punish the defendant and deter the misconduct at issue. Unfortunately, although the courts frequently invoke the purposes of retribution and deterrence, they often offer little analysis of these purposes or their implications. Markel cites as an example, that courts rarely instruct juries to parse the amount of money necessary to punish the defendant and the amount necessary to achieve deterrence. Moreover, they rarely distinguish between optimal deterrence, aiming at cost internalisation and complete deterrence, aiming at preventing the commission of similar misconduct in the future. He states that a consensus on the purposes of punitive damages has emerged, with the US Supreme Court beginning to establish a constitutional framework for the regulation of such damages. These can be

²⁸⁰ *Phonographic Performance Ltd v Reader* [2005] EWHC 416 (Ch).

²⁸¹ *PPL v Reader* (n 280) per Pumfrey J citing *Nottinghamshire Healthcare National Health Service Trust v News Group Newspapers Ltd* [2002] EWHC 409 (Ch).

²⁸² Thomas C. Galligan Jr. *Augmented Awards: The Efficient Evolution of Punitive Damages*, 1990, 51 La L.Rev., available at: <http://digitalcommons.law.lsu.edu/larev/vol51/iss1/6>. 10.

²⁸³ Dan Markel, *How Should Punitive Damages Work?* *University of Pennsylvania Law Review* (2009) vol. 157: 1383, 1391-92.

summed up succinctly: The most important factor is the degree of reprehensibility of the defendant's misconduct; whether the disparity between the actual or potential harm suffered by the right holder and the punitive damages award is 'constitutionally excessive;' the disparity between the punitive damages award and the civil penalties authorised or imposed in comparable cases; the court must ensure that the jury does not impose on the infringer an amount that includes harm to non parties to the litigation; the judicial review of the jury's award of punitive damages must be available and finally, an appellate review of punitive damages must apply a *de novo* standard of review of the jury's award, at least in a federal case. Merkel pointed out that although the court has developed these rules to improve fair notice and proportionality for defendants facing these sanctions, it has not extended to the defendants the protections normally applicable in the criminal law context.²⁸⁴

This contrast between the situation in the US and the UK highlights the very different stance that the two jurisdictions take in respect of punitive awards when they are both Members of the TRIPS Agreement. The UK, whose case law on the issue will be considered below, has been very hesitant about imposing a punitive element on damages awards, whilst the US courts can impose very high levels of such damages. The TRIPS Agreement, setting out minimum standards and no explicit guidance on deterrence has failed to achieve a global consensus. There is no structured approach. The TRIPS Agreement is not the only FTA to which the UK is a party, and the terms of the CPTPP, the TCA 2020 and the UK-Australia Agreements will now be considered.

2.4 *The CPTPP*

The CPTPP²⁸⁵ incorporates, by reference, the provisions of the original TPP,²⁸⁶ which have been incorporated with a limited number of exceptions that have been suspended until the parties agree to end them by consensus. The Agreement establishes a common set of rules on IP protection and enforcement, which aim to encourage investment in new ideas, support creative and innovative industries, address and prevent piracy and counterfeiting and promote the dissemination of

²⁸⁴ Markel, *How Should Punitive Damages Work?* (n 283) 1393.

²⁸⁵ CPTPP (n 36).

²⁸⁶ Trans-Pacific Partnership (TPP), signed on 4 February 2016, in Auckland, New Zealand.

information, knowledge and technology.²⁸⁷ The IP provisions are incorporated in Chapter 18 of the Consolidated Text of the Agreement, Articles 18.71-18.76 and the objectives are set out in Article 18.2. Article 18.71.1 repeats the General Obligations contained in Article 41.1 of TRIPS and recognises the need to prevent and deter infringement. The objectives in Article 18.2 specify that the protection and enforcement of IP rights should contribute to the promotion of technological innovation, but providing that the transfer and dissemination of technology should be to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare and to a balance of rights and obligations. This envisages that fundamental rights are explicitly recognised within the provisions. Similarly, Chapter 18.4 requires parties to respect the need for due process, taking into account the interests of relevant stakeholders, including right holders, service providers, users and the public and therefore, enforcement provisions should reflect this balance. The nature and scope of the provisions of the Agreement are mandatory, with Article 18.5 stating that each party *shall* give effect to the provisions of the Chapter. As with the TRIPS Agreement more extensive protection is permissible but not mandatory and the provisions may be implemented in accordance with the legal system and practice of Member States. The TPP enforcement provisions are significant not only because of the requirements themselves, but also because the IP obligations under it, are consistent with the ‘upward ratchet’ trend in international IP law.²⁸⁸ This is reflected in the fact that the TPP creates more robust and detailed obligations than TRIPS and the availability of pre-established or punitive damages is explicitly referenced.

There is a specific requirement for proportionality in Article 18.71(5) , which takes account of the seriousness of the infringement, the applicable remedies and the interests of third parties. This could mean tougher sanctions for more serious infringement, but it also leaves room for reduced penalties for infringement that may be perceived as less significant.²⁸⁹ This allows the court to exercise its discretion in the

²⁸⁷ Australian Government , Department of Foreign Affairs and Trade, CPTPP, www.dfat.gov.au.

²⁸⁸ See Susan K. Sell, *TRIPS Was Never Enough: Vertical Forum Shifting, FTA's, ACTA and TTP*, 2011, 18 J. Intell. Prop. L. 447, 449.

²⁸⁹ J. Janewa Osei-Tutu, *IP Enforcement Under the TPP: Civil and Administrative Procedures and Remedies, Provisional Measures in TPP (Art 18.71-18.76)* 20 SMU Sci. & Tech L. Rev. 221 (2017) <http://scholar.smu.edu/scitech/vol20/iss2/9> , at 224.

awarding of punitive damages, to ensure that they act as a deterrent, but in a proportionate way. Weatherall²⁹⁰ comments that it is a relief to see proportionality included as a consideration in the final TPP text, but was disappointed that the principle was acknowledged in very weak terms: proportionality was not a *requirement* but a *consideration* and by implication, a consideration which may be overruled by requirements such as the need for deterrence. She opined that proportionality ought to be a consideration in determining remedies such as pre-established, statutory, or punitive damages. Weatherall contrasted the explicit use of proportionality in the Enforcement Directive 2004/48/EC, in that Article 3 of that Directive *requires* that ‘measures, procedures and remedies *shall also be effective, proportionate and dissuasive.*’ A robust legislative amendment of section 97 of the CDPA 1988 would expressly include reference to remedies complying with those three factors set out in Article 3 of the Directive.

The Agreement improves on TRIPS, in that Article 18.71(2) expressly recognises that the provisions are equally applicable in the digital environment, though TRIPS was negotiated to harmonise pre-digital IP law. There are also presumptions, subject to evidence to the contrary, as to the ownership of the IP right,²⁹¹ that IP subsists in the work in question and that the trade mark or patent is valid.²⁹² These provisions transfer the burden of proof to those who question the validity of IP rights, therefore saving court time and expense on the exercise. A further improvement on the TRIPS Agreement, is a requirement that, in addition to the publishing of reasoned judicial decisions²⁹³ the Member States expressly recognise the importance of collecting information and statistical data regarding IP infringement and the best practices for combating infringement.²⁹⁴ Collating this information will assist in the identification of the global prevalence of infringement and there would be a further benefit if damages awards could also be collated and published, which could contribute to an understanding of the level of deterrence that may be required to combat

²⁹⁰ Kimberley Weatherall, Section By Section Commentary on the TPP Final Chapter, published 5 November 2015, Part 3, Enforcement Working Paper, November 2015: DOI:10.13140/RG.2.1.4021.8967, 6

²⁹¹ CPTPP, art 18.71(2), It is presumed that unless there is evidence to the contrary, the author, producer, publisher or performer is the IP right holder.

²⁹² CPTPP, art. 18.71(2)-(3).

²⁹³ CPTPP, art. 18.73(2).

²⁹⁴ CPTPP, art. 18.73(2).

infringement. With Members also being obligated to publish information regarding their efforts to effectively enforce IP rights within their borders,²⁹⁵ it will be more difficult for them to claim that they provide effective IP protection if they fail to demonstrate adequate enforcement.²⁹⁶ This is especially true because under Article 18.73(2), they must include an explanation of their efforts to deter infringement. This provision may assist in directing attention to the concept of deterrence in national IP legislation. The text of the CPTPP continues the emphasis on deterrence in determining remedies. Modern IP treaties and rules often put deterrence, or similar concepts at the forefront of the enforcement calculus. In itself this is fine, provided that deterrence is not confused with punishment. A single minded focus on deterrence-as-punishment at the cost of persuasion and other considerations can be counter productive.²⁹⁷ A balanced regime would provide for compensation and deterrence.

The general damages provisions in Article 18.74(3) of the CPTPP, reflects that found in Article 45 of the TRIPS Agreement, providing for damages adequate to compensate the right holder for the injury suffered because of the infringement, if the requisite knowledge is present. This is a base line requirement, because Article 18.74(3) refers to the compensatory damages in the terms of *at least* when stating that compensatory damages shall be available. In addition, the CPTPP specifies that the measure of value that the right holder submits, including the suggested retail price or market value, can be considered in assessing damages.²⁹⁸ This requirement reflects Article 9.1 of the proposed, Anti-Counterfeiting Trade Agreement 2010 (ACTA), which has never come into force. These provisions may be open to abuse, in the absence of a specialised and experienced judiciary, as the right holder could submit subjective figures upon which to base an assessment. Even in a specialised court arena, such as the IPEC, there would be room for an arbitrary award, as the evidence put before the court, could be without any basis upon which an infringer could challenge it. Any *legitimate* measure could be open to interpretation and requires clarification. Measuring the value of the infringing goods by the market value or suggested retail price, is complex, as goods can vary in

²⁹⁵ CPTPP, art. 18.73(3).

²⁹⁶ Osei-Tutu (n 289) 224-225.

²⁹⁷ Weatherall, Commentary on the TPP (n 290) 4.

²⁹⁸ CPTPP, art. 18.74(4).

price by brand or location. It would be more equitable to have expert evidence to assess the concepts of market value, or suggested retail price, but that would add to the level of litigation costs.

In her commentary on the TPP, Weatherall notes²⁹⁹ that the requirement in Article 18.74.3 is that there must be authority to order damages, not an obligation to ensure that damages are ordered. She again contrasts this with the EU Enforcement Directive, in which Article 13 states that Member States ‘shall ensure’ that on application by an injured party, the judicial authorities ‘order the infringer to pay damages appropriate to the actual prejudice suffered as a result of the infringement.’ Similarly, the requirement is that the Member States’ courts have the *authority to consider* various ‘legitimate measures of value’ rather than *all appropriate aspects*, as in the Article 13 of the Directive and the provision makes no mention of usual or market royalties as an appropriate measure of damages, which is in contrast to Article 13.1(b) of the EU Directive and a common measure internationally.³⁰⁰ Weatherall also questions whether the wording of Article 18.74.3 permits the court to *refuse* to order damages in certain cases, which amounts to a discretion to do so. She believes that if it were the intention of the TPP’s negotiators to require damages to be available in every single case, it would have been a simple matter to draft the Agreement to that effect. The text is drafted in general terms to require damages to be available ‘in civil judicial proceedings’, not in ‘any proceeding’ but ‘in the proceeding’ and the fact that in certain TPP countries damages are not available for innocent infringing, supports that interpretation.³⁰¹

Article 18.74(4) includes a list of factors that the court must consider in determining an award of damages. The factors, which are any legitimate measure of value that the right holder submits and may include lost profits, the value of the infringed goods or service measured by the market price, or the suggested retail price. The reference to ‘legitimate’ is suggestive of recognised legal measures and preferably supported by

²⁹⁹ Weatherall, Commentary on the TPP (n 290) 14.

³⁰⁰ Weatherall, Commentary on the TPP (n 290) 15.

³⁰¹ Weatherall, Commentary on the TPP (n 290) 15.

evidence. Karaganis has undertaken research³⁰² which has indicated that there is a tendency by right holders in some markets to price their goods at a level that is unaffordable for the vast majority of the population. In these circumstances a measure of the retail price may bear no relation to the harm suffered by the infringement. Weatherall believes that there are cases where a royalty is more appropriate, particularly when the IP rights cover some component of a product³⁰³. In the US patent system, reforms have been proposed, which require an apportionment of damages.³⁰⁴ She notes previous attempts to require the court to 'identify the methodologies and factors that are relevant to the determination of damages' and would allow the court or jury to 'consider only those methodologies and factors relevant to making such determination', with only the evidence relevant to the methodologies being admissible.³⁰⁵ However, as there are also various provisions in treaties and laws around the world that limit damages in certain cases to a reasonable royalty only, that would be inconsistent with a blanket requirement.³⁰⁶ This is a problem that could be overcome by setting out legislation which specifies the factors which the court will take into account in the assessment of damages.

The TPP mandates the availability of an account of profits, at least in cases where the requisite knowledge is present.³⁰⁷ This is a TRIPS plus provision, although Article 45.2 of the Agreement provides that Member States 'may in appropriate cases' authorise their judicial authorities to order recovery of profits, which applies to infringement without knowledge. This is also available in the Enforcement Directive 2004/48/EC, Article 13(2). The profits are those 'attributable to the infringement,' which requires the court to indulge in an extensive inquiry as to the losses directly resulting from the infringing acts. It is arguable whether such an extensive inquiry is a cost effective method of deterrence.

³⁰² Joe Karaganis, 'Rethinking Piracy,' in Joe Karaganis, *Media Piracy in Emerging Economies* (ed. Social Science Research Council, 2011).

³⁰³ Weatherall, Commentary on the TPP (n 290) 16.

³⁰⁴ 111th Congress, 1st Sess, s.515, sec 4 (28).

³⁰⁵ Weatherall, Commentary on the TPP (n 290) 16.

³⁰⁶ Weatherall, Commentary on the TPP (n 290) 16.

³⁰⁷ The TPP, art. 18.74.5.

For trade mark and copyright infringement, Member States are obliged to put in place provisions for statutory damages, as well as punitive and exemplary damages.³⁰⁸ The pre-established damages in Article 18.74(6)(a) are to be available on the election of the right holder, with sub section (b) having additional damages as the alternative, and these *may* include exemplary or punitive damages. This is a major change, as statutory damages and punitive damages are unusual in copyright legislation.³⁰⁹ Phillip Johnson³¹⁰ notes that, critically, a substantial difference under the CPTPP is that the option for pre-established damages in TRIPS becomes a requirement. Thus, for copyright and trade mark infringement there must either be pre-established damages or additional damages. Pre-established damages awards need to be sufficient to compensate for the harm and have a view to deterrence³¹¹ and likewise, additional damages should assess the nature of the infringing conduct and the need to deter. Section 97(2) of the CDPA 1988 already provides for additional damages for the infringement of copyright and related rights and has recently made it clear that they are punitive.³¹² A further difference in the CPTPP, is that an infringer with the requisite knowledge is liable to pay the right holder any profits made as a result of the infringement, which more or less represents the remedy of an account of profits. Section 97(2) of the CDPA 1988 permits an election between an account and damages and it is not clear whether this would remain the case under the CPTPP.³¹³ It may be assumed that the availability of such an election is not permitted, because Article 18.74(6) (a) is explicit in the availability of an election by the right holder, to request pre-established damages, while the Agreement remains silent on the election between damages and profits. The UK will need to legislate to establish the alternative of pre-established damages or additional damages being available, in addition to the compensatory damages that are the base line requirement.

³⁰⁸ CPTPP, art. 18.74(6)-(7) 111-12.

³⁰⁹ See Pamela Samuelson and others, *Statutory Damages: A Rarity in International Copyright Law, But for How Long?*, (2013) 60 J. Copyright Soc'y U.S.A. 521; Marketa Trimble, *Punitive Damages in Copyright Infringement Actions Under the US Copyright Act*, (2009) 31 Eur. Intell. Prop. L. Rev. 108.

³¹⁰ Phillip Johnson, *Intellectual Property Free Trade Agreements and the United Kingdom: The Continuing Influence of European Law* (eds. Edward Elgar 2021) 188.

³¹¹ Johnson, *Intellectual Property Free Trade Agreements* (n 310), and CPTPP, art. 18.74(8) and 18.78(9).

³¹² *PPL v Ellis* (n 12).

³¹³ Johnson, *Intellectual Property Free Trade Agreements* (n 310) 189

Samuelson and Wheatland³¹⁴ are critical of pre-established damages, noting that ‘Awards of statutory damages are frequently arbitrary and inconsistent, unprincipled and sometimes grossly excessive.’ Whilst they are punitive in nature, they are paid to the copyright holder, not the State, in the way a criminal fine would be paid. This results in large awards which have the effect of encouraging litigation and which are not based upon evidence of economic loss. The potential threat of high damages awards can pressurise defendants into settlement. There is therefore a fine balancing act between providing an appropriate deterrent and the requisite proportionality in defeating copyright infringement. The TPP does not set a level at which pre-established damages are set. This is contrary to the position in many jurisdictions, such as the US, which has an upper limit for statutory damages at \$150,000 per work infringed³¹⁵ and Canada,³¹⁶ which offers the right owner the alternative of statutory damages instead of damages or profits. The legislation differentiates between infringements that are commercial in nature and which will attract a sum of \$500.00 to \$20,000 and non commercial, which is set at \$100.00 to \$5,000. Singapore also imposes a cap on statutory damages of \$200,000, or \$10,000 per work infringed, where the requisite intention is present.³¹⁷ Australia has an additional damages system³¹⁸ which provides damages which are exemplary or punitive and which are awarded at the discretion of the court, without guidance. Such awards have exceeded ten times the harm caused by the infringement, reaching six figure sums.³¹⁹ Weatherall concludes that Article 18.74.9, of the TPP, which mandates additional damages as the court thinks appropriate, having regard to all relevant matters, including the nature of the infringing conduct and the need to deter similar infringements in the future, is completely inappropriate in a treaty and that this level of detail should be determined at domestic level, consistent with the broader legal system,³²⁰ on the basis that having a differential between IP and other civil enforcement may hamper the development of consistent legal principles. It is also TRIPS Plus, as the TRIPS Agreement does not require IP to be treated any differently to other areas of law.

³¹⁴ Samuelson and others, *Statutory Damages* (n 309) 439.

³¹⁵ 17 USC § 504(c)(2).

³¹⁶ The Copyright Act 1985 (Canada), section 38.1(1)

³¹⁷ Copyright Act 1987 (Sing) s 119(2)(d); s 119(3) (innocent infringement).

³¹⁸ Copyright Act 1968 (Cth) s 115(4).

³¹⁹ See *Elwood Clothing v Cotton On Clothing* [2009] FCA 633.

³²⁰ Weatherall, *Commentary on the TPP* (n 290) 20.

When the original TPP was being negotiated in 2015, the Infojustice organisation³²¹ set up a series of publications by leading experts worldwide, who analysed the TPP IP provisions. Its post on 25 November 2015, noted that many concerns were raised about how the TPP could mandate the adoption of U.S. style statutory damages, noting that scholars have found that statutory damages in the U.S. have discouraged investment in innovative technologies while incentivising the emergence of copyright trolls. The post noted that the TPP damages provisions went beyond TRIPS, but were more flexible than the Korea-U.S. FTA (KORUS) and allowed the adoption of a statutory damages framework less onerous than that of the U.S. Copyright Act. Article 18.74(3) of the TPP provided for the recovery of actual damages and the infringer's profits under Article 18.74(5), although these may be profits that are presumed to be the damages set out in 18.74(3). Additionally, a Member State must establish or maintain a system of pre-established damages or additional damages, with Footnote 111 clarifying that additional damages may include exemplary or punitive damages. Pre-established damages were therefore the same as statutory damages under the U.S. Copyright Act. The issue of deterrence was explicit in the TPP, with Article 18.74(8) containing a requirement that pre-established damages shall be set out in an amount that would be sufficient to compensate the right holder for the harm caused by the infringement and with a view to deterring future infringements. This exceeds the purely compensatory nature of Article 45.1 of TRIPS and the non-mandatory requirement in Article 45.2 that permits the recovery of profits or the payment of pre-established damages and which is not explicitly directed towards deterrence.

Despite embracing a damages regime beyond that required by TRIPS, the provisions in the TPP provide parties with flexibility on the issue of statutory damages. The concept of deterrence is, of necessity, an open one, subject to a range of interpretations. More specifically, a Member State does not have to adopt a comprehensive system of statutory damages, as it can opt for a system of additional damages, such as treble damages, only in cases of wilful infringement. The TPP was more flexible than the United States-Korea FTA (KORUS)³²², which required the establishment of pre-

³²¹ Jonathan Band, Infojustice.org, (November 25 2015).

³²² S. Kor-US. June 30 2007 (Korea-US FTA) Chapter 18.

established damages. Even where a Member State does adopt a system of statutory damages, it need not be anywhere near as onerous as the US Copyright Act 17 U.S.C. § 504(c). The primary objective of the system would be to compensate the right holder for the infringement, with deterrence as a secondary factor.³²³ Applying these provisions, a legislature enacting a system for pre-established damages, could, as in the US, set one range of statutory damages for wilful infringement, another range for ordinary infringement and a third for innocent infringement.³²⁴ A final factor is that a legislature enacting a system for pre-established damages could provide its courts with far more guidance on how to apply the statutory ranges than in the US Copyright Act, 17 U.S.C. § 504(c), which only instructs a court to allow recovery within the statutory range, ‘as the court considers just’. The courts could be directed to focus compensation for the right holder’s injury and to take into account the need for proportionality between the seriousness of the infringement and the amount awarded.³²⁵ Phillip Johnson has undertaken an assessment of the level of awards of additional damages in the UK, New Zealand and Australia and his article argues that there is a need for formal guidelines in the awarding of additional damages.³²⁶ He concludes that additional damages should be awarded using a structured approach enabling the outcome to be more foreseeable and which fits both its normative basis and its practical application.³²⁷ The CPTPP, unlike the TRIPS Agreement, explicitly recognises the need for deterrence in the awarding of damages for copyright infringement and now that the UK is a party to this Agreement, having signed it on 16 July 2023, it will need to provide a suitable system for the application of punitive damages. That system will also benefit from such a structured and foreseeable approach that formal guidelines can offer. Only with a structured approach, will a regime of punitive damages successfully deter infringement.

2.5 *The TCA 2020*

³²³ S. Kor-US. ch. 18.

³²⁴ S. Kor-US. ch. 18.

³²⁵ S. Kor-US. ch. 18.

³²⁶ Phillip Johnson, *Compounding Uncertainty* (n 18) 136-161.

³²⁷ Phillip Johnson, *Compounding Uncertainty* (n 18) 137.

The TCA 2020³²⁸ entered into force on 1 January 2021. This Agreement includes provisions which are similar to pre-existing EU law, such as Article 13 of the Enforcement Directive 2004/48/EC, which is replicated in Article 265 of the TCA.³²⁹ The UK exited the EU on 31 January 2020, with the withdrawal being managed by the European Union (Withdrawal) Act 2018 (EUWA 2018), the principle UK statute which repealed the European Communities Act 1972 (ECA 1972). Prior to Brexit, EU law had taken effect in the UK by virtue of the ECA 1972. The intention of the legislature following Brexit, was to maintain continuity of law as it stood at 11pm on 31 January 2020, the time at which, the UK was no longer a Member State of the EU. From that date until 11pm on 31 December 2020, during the transition period, or implementation period,³³⁰ EU law applied to the UK by virtue of Article 127(1) and (3) of the EUWA 2018. This took effect domestically under the European Union Withdrawal Act 2020. The TCA 2020 was implemented in the UK through the European Union (Future Relationship) Act 2020 (EUFRA 2020).

The TCA is a 1246 page document, which *inter alia*, provides that IP rights will continue to be protected to at least the standards required by international agreements to which both the UK and the EU are parties. There have been a number of transnational conventions such as TRIPS, establishing exclusive copyright and related rights, but the standards in such agreements represent a ‘floor’ to the standard of copyright protection, with the ceiling being left for contracting states.³³¹ The EU regime on the other hand, has harmonised large swathes of copyright law, both by way of EU Directives and through the decisions of the CJEU. Critically, the wording of the

³²⁸ The TCA 2020.

³²⁹ The TCA 2020, art. 265.1 This provides for damages appropriate to the actual prejudice suffered by the right holder where the infringer knowingly engaged, or had reasonable grounds to know it was engaging, in an infringing activity; art. 265.2(a) provides that the judicial authorities setting the damages, shall take account of all appropriate aspects, including lost profits which the injured party has suffered, any unfair profits made by the infringer and in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement, or (b) as an alternative to (a), they may set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the IP right in question. Art. 265.3 provides that where the infringer did not knowingly, or with reasonable grounds to know, engage in an infringing activity, the judicial authorities may order the recovery of profits or the payment of damages which may be pre-established.

³³⁰ The UK and the EU agreed the terms of the Withdrawal Agreement on 17 October 2019, with the transition or implementation period end date set out in the EUWA 2020, section 39(1).

³³¹ See Sheldon Halpern and Phillip Johnson, *Harmonising Copyright and Dealing With Dissonance*, (Edward Elgar 2014) 47.

Directives, which have formed the basis of the EU harmonisation, have been replicated in a range of FTA's which have been rolled over into agreements entered into by the UK. In contrast to other IP rights, the CDPA 1988 generally, does not reflect the wording of various Directives, but the courts have relied upon the *Marleasing* Principle to construe the Act in accordance with EU law.³³²

The importance of international agreements such as TRIPS, Berne and Rome is confirmed in the TCA, with its objective being set out in Article 219, which is "to facilitate the production, provision and commercialisation of innovative and creative products and services...by reducing distortions and impediments to...trade, thereby contributing to a more sustainable and inclusive economy; and ensure an adequate and effective level of protection and enforcement of intellectual property rights." These are similar to Article 13 of the Enforcement Directive 2004/48/EC, with explicit reference to measures, procedures and remedies being dissuasive, but there is no explicit reference to the need for deterrence, which is stronger than dissuasion. At the general level, the Agreement "compliments and specifies" the obligations of parties under TRIPS and any other IP treaties to which the UK and the EU may be parties.³³³ Unless otherwise stated, the UK or the EU can provide more extensive protection and enforcement paths,³³⁴ thereby making the TCA an Agreement in relation to IP, with minimal levels of protection which encourages a maximalist approach. The UK and the EU have agreed to cooperate in relation to implementation, including exchanges of information and experience regarding enforcement, protection and training,³³⁵ as well as agreeing to facilitate voluntary and practical initiatives to reduce infringement.³³⁶

Most of EU derived domestic legislation in relation to copyright and related CJEU case law delivered prior to the end of the transition period, will continue to be applicable in domestic law as "retained EU law."³³⁷ The majority of this EU derived law builds and implements on minimum standards of protection provided in relevant international

³³² The *Marleasing* Principle; the rule that national laws must be interpreted as far as possible so as to be compliant with EU law: Case C-106/89 (EC:C:1990:395) *Marleasing SA v La Comercial Internacional de Alimentacion SA* [1991] ECR I-4135.

³³³ TCA 2020, art. 220. See also arts. 222 and 272.

³³⁴ TCA 2020, art. 220.

³³⁵ TCA 2020, art. 273.

³³⁶ TCA 2020, art. 274. See also the Trade Specialised Committee on Intellectual Property (art. 8(1)(g)).

³³⁷ The European Union (Withdrawal) Act 2018, ss 2 and 6.

treaties to which both the UK and other EU Member States are parties. Therefore, there are no major changes to UK copyright law after 1 January 2020.³³⁸ The majority of the law relating to the enforcement of IP rights in the UK is domestic in origin and unaffected by Brexit. The IP Enforcement Directive 2004/48/EC was implemented into UK law by the Intellectual Property (Enforcement etc) Regulations 2006³³⁹ and the relevant law will continue unchanged unless the 2006 Regulations are amended or relevant CJEU case law is re-interpreted by the UK appellate courts.

The IP rights in the TCA are set out at Title V.³⁴⁰ Whilst Article 265 replicates the provisions of Article 13 of the Enforcement Directive, it does not exactly replicate Regulation 3 of the 2006 Regulations. Regulation 3(1) requires damages to be awarded to the right holder appropriate to the actual prejudice suffered as a result of the infringement, where the infringer knew or had reasonable grounds to know that he was engaging in infringing activity, which replicates Article 13(1) of the Enforcement Directive and Article 265.1 of the TCA. Regulation 3(2) provides that when awarding such damages, all appropriate aspects shall be taken into account, *including in particular*, the negative economic consequences, including any lost profits, which the claimant has suffered and any unfair profits made by the defendant, and elements other than economic factors, including the moral prejudice caused to the claimant by the infringement, or where appropriate, they made be awarded on the basis of the royalties or fees which would have been due had the defendant obtained a licence. Article 13(1)(b) refers to the royalties or fees being awarded *at least* on the basis of elements such as the amount of royalties or fees, as does Article 265 of the TCA. The difference in practice between Regulation 3(2) of the 2006 Regulations and the TCA is minimal. However, Regulation 3(3) states that “This Regulation does not affect the operation of any enactment or rule of law relating to remedies for the infringement of intellectual property rights except to the extent that it is inconsistent with the provisions of this Regulation.” Regulation 3 does not include provision to order the recovery of profits or pre-established damages which both Article 13(2) of the

³³⁸ Except that the Intellectual Property (Copyright and Related Rights)(Amendment)(EU Exit) Regulations 2019 have removed or corrected reference to the EU, EEA or Member States within domestic copyright legislation in the UK, as appropriate as relevant.

³³⁹ The Intellectual Property (Enforcement etc) Regulations 2006, S.I. 2006/1028.

³⁴⁰ TCA 2020, 125-147.

Enforcement Directive and Article 265 of the TCA incorporate in their respective provisions. The ability to award the recovery of profits or damages which may be pre-established could be read as inconsistent with Regulation 3. An Explanatory Memorandum to the 2006 Regulations, issued by the Department of Trade and Industry³⁴¹ set out the Matters of Special Interest to the Joint Committee on Statutory Instruments, notes that Regulation 3 implements Article 13(1) of the Enforcement Directive and sets out a range of factors which must be taken into account in awarding damages. It states that it is necessary to avoid the implication that Article 13(1) provides a complete code that displaces the national law of damages (in particular any suggestion that it introduces punitive damages). It goes on to state that accordingly, Regulation 3(3) makes it clear that the existing rules of national law are preserved, except to the extent that there is an actual inconsistency with article 13(1). The UK courts have subsequently considered the character of punitive damages in the context of section 97(2) of the CDPA 1988,³⁴² concluding that damages do not need to be shoehorned into existing legal taxonomy, as they are a form of damages authorised by statute and their legal character is *sui generis*.³⁴³ They may be partly, or indeed wholly, punitive.³⁴⁴ The Enforcement Directive 2004/48/EC was considered, noting that Article 2 permitted Member States to rely upon national laws which are more favourable than the Directive³⁴⁵ and therefore, on the face of it, a remedy under section 97(2), if more favourable to a right holder, is not affected by the Directive.³⁴⁶ The Enforcement Directive is no longer applicable law following Brexit, but Regulation 3, remains retained EU law under the EUWA 2018. The provisions of the TCA are not inconsistent with the Enforcement Directive and it remains to be seen whether Regulation 3 will be amended in due course. The courts have continued to interpret section 97(2) in a way that provides for additional or punitive damages, even though Regulation 3 of the 2006 Regulations does not provide for punitive awards and in 2006 there was no intention on the part of the Government for them to do so.

³⁴¹ Department of Trade and Industry, Explanatory Memorandum to the Intellectual Property (Enforcement etc) Regulations 2006, 2006 No. 1028, para. 3.1.

³⁴² *PPL v Ellis* (n 12)

³⁴³ *PPL v Ellis* (n 12 [37].

³⁴⁴ *PPL v Ellis* (n 12)[37].

³⁴⁵ *PPL v Ellis* (n 12)[39].

³⁴⁶ Chapter Three explores the case of *PPL v Ellis* in greater detail, in the context of the Enforcement Directive 2004/48/EC.

The detailed application of Article 13 of the Enforcement Directive will be considered in Chapter Three, but whilst the Directive is no longer law, the provisions of the TCA,³⁴⁷ are now part of UK law, albeit they differ in part from Regulation 3. There is no uniform code and the courts may still interpret copyright damages provisions in different ways going forward. In 2017, Lord Justice Richard Arnold, along with academics, Lionel Bentley *et al*,³⁴⁸ considered the legal consequences of Brexit for IP law, prior to the TCA being finalised. They rightly identified that the UK would have to comply with some of the *aquis communautaire*, since every EU FTA with the rest of the world comes with a detailed IP chapter which obliges the other party to comply with it, therefore obliging the other party to comply with some features of EU law. This is the case even if trade agreements are secured only with third parties such as Australia and New Zealand beyond the EU, as third parties themselves are often bound by bilateral agreements with the EU.³⁴⁹

In relation to IP rights and enforcement, little will change in practice, given that Article 265 of the TCA reflects the substance of Article 13 of the Enforcement Directive and both the UK and the EU are parties to the main international IP treaties such as TRIPS. Arnold and Bentley³⁵⁰ recommend that if the UK starts to unravel the EU copyright *aquis*, it would in any case, be wise to revamp the Copyright Act, which has become over the years overly long and over complicated and not only because of EU Directives. If the UK wishes to ‘take back control’ of its copyright law, then it is manifest that a thorough review and overhaul of the 1988 Act will be required. Thus Brexit is liable to make the need for a new Act more pressing, not less.³⁵¹

The legal value of the case law of the CJEU has recently been considered by the Court of Appeal in the case of *TuneIn Inc v Warner Music Limited (1) and Sony Entertainment UK Limited (2)*.³⁵² The case represented the first time that the UK courts have forensically assessed the implications of CJEU decisions and the continuing application

³⁴⁷ The TCA 2020 as implemented by the European Union (Future Relationship) Act 2020.

³⁴⁸ Richard Arnold, Lionel Bentley, Estelle Derclaye and Graeme Dinwoodie, *The legal Consequences of Brexit Through the Lens of IP Law*, (Legal Studies Research Paper Series, University of Cambridge, Faculty of Law 2017).

³⁴⁹ Arnold and others (n 348) 1, footnote 1.

³⁵⁰ Arnold and others (n 348) 7.

³⁵¹ Arnold and others (n 348) 7.

³⁵² *TuneIn Inc v Warner Music (1) and Sony Music Entertainment UK Limited (2)*, [2021] EWCA Civ 441.

of ‘retained EU law.’ The *Warner Music* and *Sony Music* companies own exclusive licences for copyright sound recordings of music, which together account for about 43% of sound recordings in the global market and more than half of the market for digital sales in the UK. *TuneIn* is a US technology company that provides internet radio services available online and via a mobile app, *TuneIn Radio* which provides users with access to over 100,000 radio stations which are broadcast by third parties across the world. The premium service also permits users to record the radio stream. The companies sued *TuneIn* for copyright infringement, with the core issue being whether hyperlinks to radio stations broadcasting from various countries, including the UK, constituted ‘communications to the public’, thereby infringing the copyright belonging to the companies contrary to section 20 of the CDPA 1988. *TuneIn* argued that post Brexit, the Court of Appeal should depart from the entire body of CJEU jurisprudence on communication to the public, or at least to depart from CJEU cases of *Svensson*³⁵³ and *GS Media*.³⁵⁴

Lord Justice Arnold handing down the judgment considered whether the Court of Appeal should depart from CJEU jurisprudence.³⁵⁵ He observed that the departure of the UK from the EU on 31 January 2020 and the end of the implementation (or transitional) period under the UK-EU Withdrawal Agreement at 11pm on 31 December 2020 does not affect “EU derived domestic legislation” such as section 20 of the CDPA 1988, as amended to implement the Information Society Directive: section 2 of the UK-EU Withdrawal Act 2018. Such legislation remains in effect unless and until it is repealed or amended.³⁵⁶ Further, of the 25 judgments and orders of the CJEU discussed by the court,³⁵⁷ 24 of them constituted ‘retained EU case law’ under section 6(7) of the EUWA 2018, meaning that they continue to form part of domestic law post Brexit and continue to bind lower courts under section 6(3) of the EUWA 2018. The Court of Appeal and the Supreme Court have power to depart from such judgments and orders, but only on the same basis that the Supreme Court has power to depart from one of its own precedents or one determined by the House of Lords, in

³⁵³ C-466/12 *Nils Svensson v Retriever Sverige AB* [EU:C:2014:76].

³⁵⁴ C-160/15 *GS Media BV v Sanoma Media Netherlands BV* [EU:C:2016:644].

³⁵⁵ *TuneIn* (n 352) [73]-[89].

³⁵⁶ *TuneIn* (n 352) [73].

³⁵⁷ *TuneIn* (n 352) [67].

accordance with the *Practice Direction (Judicial Precedent)* [1966] 1 WLR 1234: section 6(5A) of the EUWA 2018 and the European Union (Withdrawal) Act 2018 (Relevant Court)(Retained EU Case Law) Regulations 2020 (S.I. 2020/1525).³⁵⁸ Lord Justice Arnold noted that in the domestic context, both the House of Lords and the Supreme Court have consistently stated that this is a power to be exercised with great caution.³⁵⁹ The court declined to depart from CJEU jurisprudence in the present case on the basis that there has been no change in the domestic legislation. Now that the UK has left the EU, it will be open to Parliament to amend section 20 of the CDPA 1988 as it sees fit, subject to its international obligations.³⁶⁰ There has been no change in the international framework and given that the issue is regulated by international treaties, courts of the contracting States should be striving for consistency of interpretation, rather than unilaterally adopting their own interpretations.³⁶¹

It is likely that the courts will refer to CJEU decisions as a guiding principle at least. As the Master of the Rolls, Lord Geoffrey Vos observed in *TuneIn*,³⁶² the communication right is an area of law that derives from international treaties and he concurred with Lord Justice Arnold that States that accede to such treaties should strive to achieve harmonious interpretation. Although the case was in relation to the communication right, in the context of the internet and hyperlinks, it is a difficult area of law that often has impacts, as in that case, across borders, giving rise to frequent issues and potential anomalies. The large number of cases dealt with by the CJEU in relatively few years, is a testament to that and it would be undesirable for one nation to depart from such an approach without an exceptionally good reason. The *TuneIn* case illustrates, as the Master of the Rolls pointed out, that the large number of cases that the CJEU have dealt with have encompassed a wide range of issues that the domestic courts may not have encountered frequently or at all and it is reasonable for them to seek guidance where they can. Further, EU Directives have been implemented in the UK via national

³⁵⁸ *TuneIn* (n 352) [74].

³⁵⁹ *TuneIn* (n 352) [75].

³⁶⁰ *TuneIn* (n 352) [78].

³⁶¹ *TuneIn* (n 352) [79].

³⁶² *TuneIn* (n 352)[198].

legislation and the content of those Directives have been analysed through UK case law, embedding it within the common law system.³⁶³

On 16 September 2021, Lord David Frost delivered a statement to the House of Lords, on the future of retained EU law.³⁶⁴ He stated that he was going to conduct a review of so called “Retained EU Law” legislation that was retained on the UK statute books through the EUWA 2018, which was intended to remove the special status of retained EU law, so that it was not a distinctive category of UK domestic law but normalised within the national law with clear legislative status. That means that the EU law does not attract undue precedence and the courts will be given the full ability to depart from the EU case law. The challenge will be to redraft the CIPA 1988, so that any bonfire of EU law is replaced with legislation that remains compatible with the TCA. In 2020, Phillip Johnson was invited to the House of Lords EU Services Committee, to submit evidence on the IP provisions in the EU’s current trade deals and the (then) draft text of the TCA.³⁶⁵ Paragraph 99 of that evidence dealt with the enforcement provisions in the (then) Articles IP.47 to IP.59,³⁶⁶ which he concluded, more or less replicate the Enforcement Directive 2004/48/EC, which set out the minimum standards of enforcement, many of which are based on procedures and remedies that were previously developed in English law. The FTA’s that the EU and the UK have agreed with other countries, have included provisions, either identical or similar to, those set out in the (then) draft TCA agreement. He also noted that the TRIPS Agreement imposes certain obligations relating to enforcement, in Articles 41 to 50, but in a less prescriptive way.

On 10 May 2023, the Secretary of State for the Department of Business and Trade, Kemi Badenoch, made a Regulatory Reform Update³⁶⁷ in relation to amendments being tabled to the Retained EU Law (Revocation and Reform) Bill. The Statement noted that the Government had already revoked or reformed over 1,000 EU laws since

³⁶³ Luke McDonagh, UK Patent Law and Copyright Law After Brexit: The Legal Implications, Paper No. 3, November 2017, British Institute of International and Comparative Law, Centre for International Governance Innovation.

³⁶⁴ Lord David Frost, Statement to the House of Lords on 16 September 2021, (Cabinet Office).

³⁶⁵ Phillip Johnson, Professor of Commercial Law, Cardiff University (PBS0013) (22 June 2020).

³⁶⁶ Art. 265 of the TCA now contains the provisions relating to awards of damages.

³⁶⁷ Kemi Badenoch, Secretary of State for the Department of Business and Trade, 10 May 2023, UK Parliament, Statement UIN HCWS764, <http://questions-statements.parliament.uk>.

the UK exited the EU in addition to the list of about 600 laws that the Government proposed to revoke directly through the Bill. Further, the Financial Services and Markets Bill and the Procurement Bill would revoke a further 500 pieces of retained EU law. The Retained EU Law Bill as originally planned would have revoked almost all EU derived legislation by the 31st December 2023, via ‘sunset provisions.’³⁶⁸ There clearly remains ongoing uncertainty about the future status of EU retained law, but at least in the near term, the existing IP enforcement provisions relating to copyright law are unlikely to be affected by this process.

2.6 UK-Australia FTA

The UK- Australia FTA was signed virtually in London and Adelaide on 17 December 2021, with the broad terms having been agreed on 14 June 2021. It came into force on 31 May 2023. The IP provisions are set out in Chapter 15 of the Agreement. The nature and Scope of the Obligations under Article 15.5 of the FTA, require affirmation of existing rights and obligations under TRIPS,³⁶⁹ with the parties recognising the importance of what is described as adequate, effective and balanced protection and enforcement of IP rights.³⁷⁰ The use of the term *adequate* suggests minimum standards which may not necessarily equate to *effective*, which suggests a sufficient level of enforcement to achieve the desired result; a deterrent effect to future infringements.³⁷¹ The Enforcement provisions are contained in Section J of Chapter 15, with the General Obligations³⁷² reflecting much of those in Article 41 of the TRIPS Agreement, while Article 15.17(f) acknowledges the requirement that procedures for the enforcement of IP should be implemented in a manner that takes into account the need for proportionality between the seriousness of the infringement of the IP right and the applicable remedies and penalties, as well as the interests of third parties. This

³⁶⁸ The Retained EU (Revocation and Reform) Bill, originated in the House of Commons, session 2022-2023, Clauses 1 and 3.

³⁶⁹ UK-Australia Trade Agreement 2021, Chapter 15.5.1.

³⁷⁰ UK-Australia Trade Agreement 2021, Chapter 15.5.2.

³⁷¹ UK-Australia Trade Agreement 2021, Chapter 15.70.2(c). The procedures should permit effective action against any act of infringement, including expeditious remedies to prevent infringements and remedies that constitute a deterrent to future infringements.

³⁷² UK-Australia Trade Agreement 2021, Chapter 15.70.

requirement for proportionality is also contained in Article 3.2 of the Enforcement Directive 2004/48/EC.

The provisions for making an award of damages in the UK-Australia FTA, do not contain any punitive element or any reference to pre-established damages as in the CPTPP. Article 15.77.1 reflects the provisions in Article 45(1) of the TRIPS Agreement, in the requirement for the availability of damages adequate to compensate the right holder for the injury caused by the infringement, provided that the requisite knowledge is present. There is provision in Article 15.77.2 for the payment of the infringers profits attributable to the infringement, *at least* in cases described in 15.77.1. This suggests that profits are not available where the infringer acted without knowledge. The UK-Australia FTA does not appear to impose any alternative basis for making an award of damages for copyright infringement than the UK is presently required to adhere to, via the Enforcement Directive 2004/48/EC or the CPTPP now that the UK is a party to it.

2.7 Minimum v maximum requirements for an award of damages

The TRIPS Agreement sets out the international minimum standards for IP enforcement and therefore the minimum international standard for an award of compensatory damages under Article 45.1 and 45.2. The minimum requirement for an award of damages under Article 45.1, is that the requisite knowledge should be present; that the infringer knew or had reason to believe that he was engaged in an infringing activity and those damages must be adequate to compensate for the injury suffered as a result of the infringement. This reflects Article 18.74(3) of the CPTPP, save that in the latter provision, the use of the words *at least*, suggest that the courts can award sums that are additional to the basic compensatory damages. The Enforcement directive 2004/48/EC also only permits an award of damages if the requisite intention is present and Article 13(1) has as a baseline, that damages must be appropriate to the actual prejudice suffered as a result of the infringement, as opposed to simply being adequate to compensate for the injury suffered as a result of the infringement. The EU Directive will be considered in Chapter Three, but the factors set out in Article 13(1)(a), which the courts are required to apply when assessing the level of any damages award, namely, all appropriate aspects, including negative

economic consequences, including lost profits, unfair profits and in appropriate cases, elements other than the economic consequences such as moral prejudice, is suggestive of an additional element of compensation being available, which goes beyond the basic financial reimbursement, as it is more difficult to quantify 'moral prejudice' in merely compensatory terms. The TCA³⁷³ more or less replicates the Enforcement Directive and The Australia-UK FTA, Article 15.77.1 reflects Article 45(1) of the TRIPS Agreement.

Where the requisite knowledge is not present, with the exception of the UK-Australia FTA, pre-established damages or the payment of profits will be permitted. Article 45.2 of TRIPS specifies the availability of the recovery of profits and/or the payment of pre-established damages. Article 15.77.2 of the UK-Australia FTA permits recovery of profits attributable to the infringement, *at least* in the cases covered by Article 15.77.1, which requires the requisite knowledge. As set out above, this suggests that this is the minimum requirement for any financial compensation; damages, profits or pre-established damages. The CPTPP does permit the payment of profits in Article 18.74.5, but this is only required in cases which are *at least* those described in Article 18.74.3, which specifies the presence of knowing infringement. This is in direct contrast to Article 18.74.6 of the CPTPP, which specifies that parties to the Agreement shall establish or maintain a system providing for one or more of the following; (a) pre-established damages, to be available on the election of the right holder, or (b) additional damages. There is no minimum requirement for the requisite knowledge as a condition for these remedies to be available, although Article 18.74.8 specifies that the pre-established damages must be set at an amount sufficient to compensate for the harm caused by the infringement *and with a view to deterring future infringements*. Similarly, Article 18.74.9 provides for additional damages to be awarded as the court considers appropriate, having regard to all relevant matters, including the nature of the infringing conduct and *the need to deter similar infringements in the future*. The minimum requirement in the CPTPP, is therefore the need to compensate and to deter. If there is a recognised need to deter innocent infringement, there

³⁷³ The TCA, 2020, IP.47, now art. 265.

should certainly be a need to deter knowing infringement, where the infringing acts are deliberate.

Unlike the CPTPP, the Enforcement Directive 2004/48/EC does not acknowledge the need for deterrence. Whilst Article 13.2 gives the court the discretion to order profits or the payment of damages that may be pre-established, where the requisite knowledge is absent, Recital 26 of the Directive clarifies that the aim is not to introduce an obligation to provide for punitive damages, but to allow compensation based upon an objective criterion. The TCA does not differ in substance from the Directive and the minimum requirements for an award of damages can also be considered to be the need for compensation and the presence of the requisite knowledge.

It is more difficult to assess any maximum requirements for an award of damages, than for minimum requirements, as most FTA's such as the TRIPS Agreement provide for a minimum international standard. If the principle of compensation is the basis for an award of damages, the maximum level of compensatory awards cannot easily be set, as that would contradict the need to provide adequate compensation or damages appropriate to the actual prejudice suffered as a result of the infringement. Where there is a requirement for deterrence, as in the CPTPP, that will be assessed by the court and the FTA's discussed above, do not provide a maximum level for any awards. The situation differs to an extent, where statutory damages are permitted, such as in the US.³⁷⁴ Such damages have been described as an 'extraordinary remedy'³⁷⁵ because they allow successful claimants to recover substantial monetary damages without any proof of harm from the infringement, or that the defendant profited from the infringement. Such damages can be awarded as the court thinks just, up to the statutory limit. The US differs from many countries, with punishment seeming to have become a common feature in statutory damages awards, while most regimes focus on compensation.³⁷⁶ Even WIPO acknowledges that in the international arena 'the concept of statutory damages as a remedy, is subject to some debate because a

³⁷⁴ Where the US provides for statutory damages of up to \$150,000 per infringed work, if that infringement is wilful.

³⁷⁵ Samuelson and others, *Statutory Damages* (n 309) 1-14.

³⁷⁶ Samuelson and others, *Statutory Damages* (n 309) 1-14.

number of legal systems see them as too close conceptually to punitive damages.³⁷⁷ Some countries expressly limit the remedy to compensation,³⁷⁸ or address specific deterrence with court orders requiring the infringer to pay a specified amount if he or she infringes again.³⁷⁹ Peru was able to secure positive limitations in trade agreements with the US, which state ‘the parties understand that [statutory] damages do not constitute punitive damages.’³⁸⁰ Maximalist awards of damages should not be inextricably entwined into a unitary award of statutory damages, that do not delineate compensatory amounts from extra-compensatory amounts. Instead punitive damages should be awarded separately from compensation and disgorgement remedies and once separated, the proportionality between compensation and punishment can be assessed under ordinary due process standards.³⁸¹

2.8 Conclusion

This chapter has sought to evaluate the minimum international standard of enforcement required by the TRIPS Agreement, as well as subsequent TRIPS Plus FTA’s, that will influence the ability of the UK to legislate in order to amend the CDPA 1988, as this will need to include a clear, concise basis and method for awarding damages for IP infringement with any punitive element for deterrence. The 1988 legislation will remain heavily influenced by Article 13 of the Enforcement Directive 2004/48/EC, as this has been reflected in the TCA 2020.³⁸² As the UK has concluded the process to become a Member of the CPTPP,³⁸³ it will have to formally establish or maintain a system of pre-established or additional damages. Section 97(2) of the CDPA 1988 already permits an award of additional damages, but as will be seen in Chapter Three, the application of the provision can be complicated by the need to adhere to Article 13 of the Enforcement Directive. The CPTPP also explicitly recognises the need for damages to have a deterrent effect, which is in contrast to the Enforcement Directive

³⁷⁷ Which kind of damages are available in IP disputes?, WORLD INTELLECTUAL PROPERTY ORGANISATION, <http://www.wipo.int/enforcement/en/faq/judiciary/faq08.html.pre>.

³⁷⁸ Morocco, art. 62, for example.

³⁷⁹ Copyright Act (Act No. 8/2011) § 72(5) (Sierra Leone).

³⁸⁰ US-Peru, art 16.11(8); US-Columbia, art. 16.11(8).

³⁸¹ Samuelson and others, *Statutory Damages* (n 309) 14.

³⁸² The TCA 2020, art. 265.

³⁸³ The CPTPP which incorporates the original TPP, insofar as it relates to damages for IP infringement.

which is explicit in its objective to compensate not to impose punitive damages.³⁸⁴ The UK will need to find a way to bring together, all of its obligations under the FTA's to which it is a signatory, as well as providing for a sufficient punitive element in awarding damages in order to successfully deter infringement. Having assessed the international framework, the thesis will now consider the European framework and consider in particular, how section 97(2) of the CDPA 1988 has been impacted by the European Enforcement Directive 2004/48/EC³⁸⁵

³⁸⁴ Enforcement Directive 2004/48/EC, Recital 26.

³⁸⁵ Enforcement Directive 2004/48/EC.

Chapter Three

The European Framework

3.1 *Introduction*

Even though the UK has exited the EU, the European framework continues to impact upon the UK damages regime to a considerable extent, with the UK courts having been bound to take the provisions of Article 13 of the Enforcement Directive 2004/48/EC into account in the assessment of damages for copyright infringement. It therefore remains necessary to consider the European framework in the context of assessing whether copyright damages need to have a sufficient punitive element to successfully deter infringement. It explicitly stated in Recital 26 of the Directive that the objective is to compensate not to punish and therefore it did not provide an sufficient punitive effect if interpreted literally. Since 1994, when TRIPS was concluded, there have been various attempts to increase and enhance the minimum standard, not only by international treaties but also by way of European Directives, such as the Civil Enforcement Directive 2004/48/EC.³⁸⁶ The Directive was implemented to address the disparities between EU Member States for the enforcement of IP rights. The objective was to approximate legislative systems, so as to ensure a high equivalent and homogenous level protection in the Internal Market.³⁸⁷ The Directive sought to impose a high standard of protection across the EU and post Brexit, the UK will retain the effect of its provisions via the TCA 2020.³⁸⁸ It is obvious that enforcement of IP rights must be effective, but the principle of proportionality must be taken into consideration and it is for the courts to balance the tensions between effectiveness, proportionality and dissuasiveness.³⁸⁹ Recital 17 of the Enforcement Directive states specifically, that the measures, procedures and remedies should be determined in each case, in such a manner as to take due account of the specific characteristics of that case, including the

³⁸⁶ Enforcement Directive 2004/48/EC.

³⁸⁷ Enforcement Directive 2004/48/EC, Preamble, para 10.

³⁸⁸ The TCA 2020.

³⁸⁹ Ansgar Ohly, *Three Principles of European IP Enforcement Law: Effectiveness, Proportionality and Dissuasiveness*. Pre- publication of the article, published in J. Drexler *et al.* (eds), *Technology and Competition*, Contribution in honour of Hanns Ullrich, (Brussels, Larcier, 2009), 257-274.

<http://ssrn.com/abstract=1523277>.

specific features of each intellectual property right and where appropriate, the intentional or unintentional character of the infringement. That requirement gives the courts the discretion to consider the flagrancy of the infringing conduct and tailor the remedies to the circumstances of the infringement, thereby engaging proportionality. This is also apparent in Recital 20 of the Directive, which notes that evidence is an element of paramount importance for establishing the infringement of IP rights and stresses the importance of having the effective means to present, obtain and preserve evidence. Any punitive damages regime should be based upon the availability of sound evidence, with the court being satisfied that an infringement has occurred if it has not been specifically admitted by the defendant or defendants.

The value of IP rights is determined in part, by the efficiency of the enforcement system and there has to be an efficient enforcement regime. If the infringement of rights do not have appropriate consequences, not only the leading function of exclusive rights will be lost, but their legitimisation will also be weakened. The Enforcement Directive provided for a minimum, but standard set of measures, procedures and remedies. The Directive led to the creation of a common legal framework, where the same set of tools are to be applied across the Union. However, the Directive was not implemented and applied in a uniform manner across Member States, because it only provided for a minimum level of harmonisation. The EU legal framework could have benefited from the clarification of certain aspects of the Directive allowing a more consistent and effective interpretation and application. This Chapter discusses Article 13 of the Enforcement Directive and how it impacted upon the ability of the UK courts to award damages for IP infringement, with reference to copyright infringement.

3.2 Article 13 of the Enforcement Directive 2004/48/EC

Article 13 of the Enforcement Directive 2004/48/EC,³⁹⁰ provides as follows:

³⁹⁰ For an overview of the Enforcement Directive, see D.I. Bainbridge, *Intellectual Property*, (9th ed Longman, Harlow 2012) 920-929; A. Kur, T Dreier, *European Intellectual Property Law: Text, Cases and Materials*, (Edward Elgar 2013) 440-448.

1. Member States shall ensure that the competent judicial authorities, on application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the right holder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement.

When the judicial authorities set the damages:

- (a) They shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement:
or
 - (b) As an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question.
2. Where the infringer did not knowingly, or with reasonable grounds to know, engage in an infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established.

Recital 26 of the Directive sets out the factors that the court must take in to account when awarding damages and which are those contained in Article 13(1)(a) and (b), as well as emphasising that the objective of the Directive is to compensate not impose punitive damages. These factors set out how ‘appropriate’ damages compensation has to be calculated in cases of wilful and negligent infringement, whereas in cases where the infringer did not know or reasonably could not have known, compensation by means of recovery of profits or a lump sum payment may be provided for.³⁹¹ Although the object of the Directive is to compensate and not punish, there is no bar on punitive damages being available as it only provides a minimum standard of enforcement.

³⁹¹ Enforcement Directive 2004/48/EC, art. 13(2).

In the opinion of Advocate General *Sharpston* in the Judgment of 25 January 2017, *Stowarzyszenie*,³⁹² the wording of *at least*, in Article 13(1)(b), suggests that damage compensation based on the consideration of what the infringer would have had to pay if he had asked for a licence fee, is the minimum amount to be paid by the infringer. Due to the wording, the method of calculation as provided in Article 13(1)(a) should be regarded as a general rule, to which the method provided in 13(1)(b) is an exception. In this context, the Advocate General refers to Recital 26 giving, as an example, cases where it would be difficult to determine the amount of the actual prejudice suffered.³⁹³ This method of calculation does not sufficiently deter infringement, as the infringer is only required to pay the amount that would have been due to the right holder under a legal agreement.

Article 13(2) takes up the aspects of Recital 17 of the Enforcement Directive in cases of innocent infringement and permits the recovery of profits or damages, which may be pre-established. The wording of this provision raises the question of whether the recovery of profits in 13(2) has the same meaning as in 13(1)(a). Article 13(1)(a) differentiates between material and immaterial damages. As far as material damages are concerned, two main aspects have to be considered: Lost profit which the injured party has suffered and any unfair profits gained by the infringer. The wording of Article 13(1)(a) suggests that lost profits and gained profits are different damage items. However, the ECJ made it clear that they are just factors to be taken into account, whereby each factor may be taken into account only once.³⁹⁴ No indications were given by the court as to what was understood under immaterial damages.

The ECJ considered the issue of proof of damage in the case of *Liffers*³⁹⁵ and pointed out that where “*...in fact [the right holder] suffered more prejudice, the actual wording of (b) of the second subparagraph of Art. 13(1) of Directive 2004/48, read in conjunction with the first subparagraph of Art. 13(1) of that Directive, precludes the calculation of the amount of damages to be paid to that right holder from being based*

³⁹² C-367/15 *Stowarzyszenie. “Olawska Telewizja Kablowa” Olawie v Stowarzyszenie Filmocow Polskich w Warszawie*, EC:C:2017:36. (Opinion of Advocate-General Sharpston) (OTK).

³⁹³ OTK (n 392) [36].

³⁹⁴ OTK (n 392) [36].

³⁹⁵ C-99/15 (EU:C:2016:173) *Christian Liffers v Producciones Mandarin SL* (CJEU 2016) [18].

exclusively on the amount of hypothetical royalties.” In the preceding paragraph the court refers to the opinion of the Advocate General, who pointed out that moral prejudice is a component of the prejudice actually suffered by the right holder, provided that it is proven.³⁹⁶ This raised the question of whether the right holder must prove that damage had been caused at all. A damage suffered may be *inter alia* questioned in cases where the right holder did not or even could not, use the right himself, as for example, he had no appropriate production facilities or did not use or licence (in that case) a trade mark. The ECJ was not asked to consider proof of damage in the *Liffers* case, but the courts’ silence on the subject could be taken to conclude that the court regards the infringement of an IP right as such, as damage.

Compensation in the EU provides for compensation for the actual harm caused by an infringement,³⁹⁷ as well as for moral prejudice,³⁹⁸ or *restitutio status quo ante*. The UK case law remains sparse on the issue of moral prejudice³⁹⁹ but the recent case of *Wirex v Cryptocarbon & Others*⁴⁰⁰ noted that it was clear from Regulation 3 of the Intellectual Property (Enforcement etc) Regulations 2006/1028,⁴⁰¹ that it covers a loss other than economic loss. However, damages for economic loss were refused in that case as they were based upon ‘severe frustration’, which the court held, many litigants could routinely claim to have experienced and this cannot constitute moral prejudice.

Article 13 of the Enforcement Directive only provides for two methods of calculating damages; compensation for actual and immaterial damage caused to the right holder, or on the basis of a lump sum. There is no provision for the surrender of profits gained by the infringer, other than the reference in Article 13(1)(a) of ‘unfair profits made by the infringer,’ which is only one aspect to be taken into account by the court, in the

³⁹⁶ *Liffers* (n 395) [28].

³⁹⁷ See art. 3(1) Directive 2014/104 EU, regarding rules governing actions for damages under national law for infringement of the competition law provisions of the Member States and of the European Union, O.J. 5.12.2014 L349/1, Recital 12: ‘This Directive reaffirms the *aquis communautaire* on the right to compensation of harm caused by infringement of Union Competition law...Anyone who has suffered harm caused by such an infringement can claim compensation for actual loss (*damnum emergens*) for gain of which that person has been deprived (loss of profit or *lucrum cessans*), plus interest irrespective of whether those categories are established separately or in combination in national law.

³⁹⁸ *Liffers* (n 395) [17].

³⁹⁹ *Wirex Limited v Cryptocarbon Global Limited* [2022] EWHC 1161 (IPEC), [19].

⁴⁰⁰ *Wirex* (n 399) [19].

⁴⁰¹ Intellectual Property (Enforcement etc) Regulations 2006/1028, reg. 3 implements art. 13 of the Enforcement Directive 2004/48/EC.

assessment of damages. In the case of *Hansson*⁴⁰² the court held that the Enforcement Directive does not oblige Member States to provide for more protective measures,⁴⁰³ but there is no prohibition on those States making provision for the surrender of profits in cases of innocent infringement. As outlined in *Hansson*,⁴⁰⁴ the profit made by the infringer is not as such, a component of the damage which the right holder has actually suffered as a result of the infringement, it is similar to the notional fee, in that it is only a substitute for assessing the damage actually suffered in the absence of evidence of all the elements of that damage, being a tool used to enable the national court to assess that damage.⁴⁰⁵

In the case of *Kone*⁴⁰⁶ it was stated that *'A claim for compensation is primarily concerned not with recovering from the injuring party the excess that has accrued to him but with awarding to the injured party reparation for the loss he has suffered as a result of the injuring party's unlawful conduct.'* Within the framework of assessing compensatory damages, there is an obligation to take into account any profits that the infringer has gained by his infringement and it lies within the nature of immaterial rights as it usually cannot be subject to actual proof, the level of profits that the right holder would have made if there had been no infringement. The surrender of profits can therefore be described as fair compensation for monetary loss caused to the right holder, rather than a pure claim for compensation of the exact provable loss. The German Federal Supreme Court has stated that⁴⁰⁷ *'In order to take into account the notion of compensation a fiction is created that, if the right had not been infringed, the right holder would have achieved the same profit from the exploitation of his right as the infringing party did...the confiscation of the profit from the infringement also serves as a punishment for the infringement...and in this way acts as a deterrent against the infringement of intellectual property rights that particularly need protection.'* This is an example of the European courts recognising the need for a deterrent effect in the assessment of damages, notwithstanding the reliance on compensation not punitive damages, in Recital 26 of the Enforcement Directive.

⁴⁰² C-481/14 *Hansson v Jungpflanzen* (ECLI:EU:C:2016:419), [40].

⁴⁰³ *Hansson* (n 402) [104].

⁴⁰⁴ *Hansson* (n 402) [99].

⁴⁰⁵ *Hansson* (n 402) [99].

⁴⁰⁶ C-557/12 *Kone v OBB-Infrastruktur* EU:C:2014:1317 [78](Opinion of Advocate-General Kolkott).

⁴⁰⁷ Federal Supreme Court, 33 IIC 900 (902) (2002), *Share of Overheads (Gemeinkostenanteil)*.

Article 13(1)(b) includes provision for compensatory damages to be determined on the basis of a lump sum, which would be assessed on a minimum basis, being the amount of royalties or fees that the infringing party would have had to pay, had he sought authorisation to use the IP right in question.⁴⁰⁸ Thus, the surrender of profits and compensation according to the licence fee, or user principle, are only a means to assess the amount necessary and appropriate to compensate the damage suffered by the right holder, in a practical and efficient manner. In *Hansson*,⁴⁰⁹ the CJEU stated that *'..the fee normally payable for licensed production cannot in itself form the basis for determining the damage to be compensated.'* It is up to the national court to determine whether the extended damage claimed by the IP right holder can be precisely established and if not, it must consider the assessment of a lump sum which reflects the actual damage as accurately as possible.

The CJEU also went on to consider the issue of overcompensation, when using the lump sum principle. In Recital 26 of the Directive, it is stated that it would be difficult to determine the exact amount of the actual prejudice suffered and it is for this reason that damages may be determined from elements such as the royalties or fees which would have been due under a licence agreement,⁴¹⁰ the benefits which had been gained by the infringer correspond at least to the amount equivalent to the licence fee. A reasonable compensation includes loss or damage that is closely connected to the failure to pay the reasonable compensation.⁴¹¹ The court stressed that it is for the referring court to determine the circumstances which require that fee to be increased and it must be borne in mind that each of the factors may be taken into account only for the purpose of determining the amount of reasonable compensation. The CJEU made it clear that the Enforcement Directive does not oblige Member States to overcompensate the right holder, but the court admitted in *Stowarzyszenie*⁴¹² that in

⁴⁰⁸ C-509/10 *Geistbeck v Saatgut-Treuhandverwaltungs GbmH* (ECLI:EU:C:2012:416) 37

⁴⁰⁹ *Hansson* (n 402) [57].

⁴¹⁰ For an interesting analysis, see Case C-597/19, *Mircom International Content Management & Consulting (M.I.C.M.) Limited v Telenet BVBA*, (EU:C:2021:492), concerning whether excessive or abusive reliance on measures, procedures and remedies under Directive 2004/48/EC, by right holders who do not exploit their rights, but merely use them to obtain some monetary damages from alleged infringers, see Amandine Leonard, 2022, J.I.P.L.P., Vol 17, Issue 4.

⁴¹¹ *Hansson* (n 402) [59].

⁴¹² *OTK* (n 392) [27].

exceptional cases, it is possible that the payment for a loss calculated on the basis of twice the amount of the hypothetical royalty, will exceed the loss actually suffered and if the applicable national law provides for such a possibility. The CJEU further explained that, where an IPR has been infringed, mere payment of a hypothetical royalty or fee, is not capable of guaranteeing compensation in respect of all the loss actually suffered. This is because payment of a royalty would not, in itself, ensure reimbursement of any costs linked to researching and identifying possible acts of infringement, compensation for possible moral prejudice or payment of interest on the sums due. In that case, it was also noted that the use of the lump sum method inherently means that the damages thus set may not be precisely proportional to the loss actually suffered and that the requirement of causality must not be interpreted and applied in an excessively strict manner in this regard.⁴¹³

In *OTK*⁴¹⁴ the court considered the compatibility of punitive damages with the Enforcement Directive 2004/48/EC. The court stated that the Directive lays down a minimum standard of enforcement of IP rights and does not prevent the Member States from laying down measures that are more protective⁴¹⁵ and the fact that the Directive does not entail an⁴¹⁶ obligation to provide for punitive damages cannot be interpreted as a prohibition on introducing such a measure.⁴¹⁷ The court went further, stating “without there being any need to rule on whether or not the introduction of “punitive” damages would be contrary to Article 13 of Directive 2004/48, it is not evident that the provision applicable in the main proceedings entails an obligation to pay such damages.”⁴¹⁸ The court went on to cite the fact that mere payment of the hypothetical royalty is not capable of guaranteeing compensation.⁴¹⁹ The court clearly considered that while the Polish national law did not provide for punitive damages, it saw no reason to explicitly rule on their compatibility with Article 13. However, the court concluded its reasoning by admitting that a doubled hypothetical royalty may exceed the loss actually suffered by the IP right holder and “in exceptional cases” may

⁴¹³ *OTK* (392) [30]. See also *Liffers* (n 395) [18].

⁴¹⁴ *OTK* (n 392) [30].

⁴¹⁵ *OTK* (n 392) [23].

⁴¹⁶ *OTK* (n 392) [29].

⁴¹⁷ *OTK* (n 392) [28].

⁴¹⁸ *OTK* (n 392) [29].

⁴¹⁹ *OTK* (n 392) [30].

exceed it ‘so clearly and substantially’ that a claim to that effect could constitute an abuse of rights prohibited by Article 3(2) of the Directive.⁴²⁰

An evaluation of the decision of the CJEU in *OTK*, concludes that whilst EU Member States do have the freedom to maintain or adopt provisions which offer the right holder the possibility of claiming damages calculated by a multiplication of the hypothetical royalty and therefore the ability to allow the awarding of punitive damages in infringement cases, care has to be taken when using the ‘punitive damages’ label. As long as the damages awarded do not exceed the actual damage suffered, the damages should not be classified as punitive, even if they are arrived at by a multiplication of the hypothetical royalty. The CJEU alludes to this in its judgment.⁴²¹ Only when the damages exceed the actual damage, a real punitive effect emerges. As the Enforcement Directive does not forbid punitive damages, national legislation can use the multiplication of the hypothetical royalty to set the appropriate damages for the infringement. The CJEU does, however, establish an upper limit, in providing that when that royalty exceeds the loss actually suffered so clearly and substantially, a claim to that effect could constitute an abuse of rights in accordance with Article 3(2) of the Directive. However, given that an award can be made, which is in excess of the actual damage suffered, but which does not constitute an abuse of process, the *OTK* judgment⁴²² permits punitive damages, although they remain a very controversial remedy within the EU. In the UK for example, historically, they could only be awarded in three circumstances: abuse of power by officials, torts committed for profit, or express statutory authorisation.⁴²³ The *OTK* case has left many issues awaiting resolution. The court failed to specifically address whether punitive damages are available under the Enforcement Directive and this will undoubtedly result in a referral to the CJEU for express clarification. Further, the meaning of the term ‘substantially exceeds’ relating to the actual loss suffered by the right holder will be open to court interpretation, especially as the burden of proving that the double royalty ‘substantially exceeds’ the actual loss, is transferred to the infringer. The UK

⁴²⁰ *OTK* (n 392) [31].

⁴²¹ *OTK* (n 392) [30].

⁴²² *OTK* (n 392).

⁴²³ *Rookes v Barnard*, [1964] 1 ALL ER, 367, 410-11 (H.L.).

now permits punitive damages in copyright cases, as a *sui generis* remedy since *PPL v Ellis*⁴²⁴

3.3 *The interpretation of Article 13 by the UK Courts*

The Enforcement Directive has been described as one of the most extensive and ambitious interventions by the EU in the field of private enforcement.⁴²⁵ In the UK, the Directive was implemented by the Intellectual Property (Enforcement etc) Regulations 2006 (2006 Regulations) and the prevailing view was that, unlike in other Member States, most of what was required was already available; as a result, legislative transposition was very limited.⁴²⁶ Considering the extent to which the Enforcement Directive has impacted upon UK IP law, very little discussion has been undertaken as to the effects of Article 13. Cornwell considers that there has been a disparity between the way in which the courts in the UK have addressed the impact of the Directive.⁴²⁷ On the one hand, they have responded positively to the injunctive provisions in the legislation, while appearing resistant to the requirements of the Directive in respect of monetary remedies, a resistance she states is highlighted by uncharacteristic methodological weakness in the key cases. This suggests an underlying concern about the disruptive impact of this aspect of the Directive on the wider private law and a degree of instrumentalism in the approach to interpreting the new law which, given the peculiarities of the Directive's transposition, seems likely to continue post Brexit.⁴²⁸ Cornish *et al*⁴²⁹ note that the Directive lies in the field that has already been provided with a plethora of ground rules by TRIPS, concerning enforcement of those IPR's within that Agreement's purview and they query the value of harmonised rules for procedural law, which encapsulates a whole set of balances concerning fundamental freedoms of individuals when they face the operations of the justice system. Who will decide on the

⁴²⁴ *PPL v Ellis* (n 12).

⁴²⁵ F.G. Wilman, 'A Decade of Private Enforcement of Intellectual Property Rights Under IPR Enforcement Directive 2004/48: Where Do We Stand (and Where Might We Go)?' *EL Rev* 2017, 42(40), 509-531, 511.

⁴²⁶ J. Cornwell, 'Injunctions and Monetary Remedies Compared: The English Judicial Response to the IP Enforcement Directive,' *European Intellectual Property Review*, vol. 40, no, pp 490-500.

⁴²⁷ Cornwell (n 426).

⁴²⁸ Cornwell (n 426).

⁴²⁹ William R. Cornish, Josef Drexler, Reto Hilty, Annette Kur, Procedures and Remedies for Enforcing IPR's: The European Commission's Proposed Directive, 2003 *E.I.P.R.* 25(10), 447-449.

merits, who on the remedial consequences? In procedural law the real tests are of how punitive and therefore preventive, legal redress should be. The tests have evolved in different countries out of long experience with their own system, each with its virtues and idiosyncrasies. In large measure they apply to all types of claim, not just to particular fields, such as IP and that is a highly desirable presumption to be maintained.⁴³⁰

Article 13(1)(a) of the Enforcement Directive required the courts to assess the meaning of ‘moral prejudice’ and the infringer’s ‘unfair profits,’ as heads of damages, which conflicts with the demarcation in English law between damages and account of profits and the requirement to elect between them.⁴³¹ Some writers have suggested that Article 13(1) requires a substantial rethinking of financial remedies, making the need to elect a remedy of an account of profits, redundant.⁴³² Other writers have suggested that Article 13(1) does not follow traditional tort law principles and have identified a shift away from purely compensatory damages, the possibility for exemplary rewards and that awards exceeding traditional measures of compensatory economic loss should become more common.⁴³³ The Explanatory Memorandum to the IP Regulations, created uncertainty in their application. Para 3.1 stated that “Article 13(1) sets out a range of factors which must be taken into account in awarding damages. It includes a number of terms, the meaning of which is unclear...It does not therefore seem appropriate to attempt to translate these terms into those of national law, and accordingly to ensure that the United Kingdom is in compliance with Article 13(1).” The IP Regulations, 3(1) and 3(2) set out the requirements of Article 13(1) in full, but the copy out approach was not fully adopted. Article 13(1)(b) of the Enforcement Directive was substantially altered in IP Regulation 3(2),⁴³⁴ IP Regulation 3(3) preserved national

⁴³⁰ Cornish and others (n 429) 448.

⁴³¹ See O.A. Rognstad, ‘Compensation and Restitution in EU Intellectual Property Law,’ in M. Adenas and K. Lilleholt (eds.) *Remedies and Substantive Law-European Dimensions of Economic and Private Law*, University of Oslo Faculty of Law Legal Studies Research Paper Series No. 2011-18. <http://ssrn.com/abstract=1916592>. See also P. Johnson, ‘Damages in European Law and the Traditional Accounts of Profit’ QMJIP 2013, 3(4), 296-306; J. Fitzgerald and A. Firth, “Is Article 13 of the Enforcement Directive a Redundancy Notice for the Account of Profits Remedy in the UK? JIPLP 2014, 9(9), 737-741; D. Liu, ‘Reforming Additional Damages in Copyright Law’ JBL, 2017, 7, 576-597.

⁴³² Fitzgerald and Firth (n 431).

⁴³³ Rognstad (n 431).

⁴³⁴ Regulation 3(2)(b) of the IP Regulations 2006, refers to damages calculated ‘on the basis of the royalties or fees which would have been due had the defendant obtained a licence.’ Article 13(1)(b) of

law, save insofar as it was inconsistent with Regulations 3(1) and (2), thereby transferring the burden onto the UK courts to determine the meaning and impact of Article 13(1).

The UK courts had to respond to the challenge of determining inconsistency between national law and the IP Regulations. Surprisingly, there was not a rush to get the transposition issues before the judiciary and litigation progressed very slowly. The first case to trouble the court was *Madonna Ciccone (formerly Ritchie) v Associated Newspapers Limited, Bonnie Robinson*⁴³⁵ The presiding judge was Mann J. When invited to do so, he declined to determine the relationship between the two limbs of Article 13(1)(a) and 13(1)(b). Article 13(1)(a) of the Directive requires the court to take into account, when assessing damages, all appropriate aspects, including negative economic consequences, lost profits, unfair profits and in appropriate cases, factors such as moral prejudice, with Article 13(b) providing the alternative of a lump sum payment of *at least* the amount of royalties or fees that would have been due, had the infringer sought permission to use the IP right in question.

The first substantive case that considered the implications of Article 13(1) was *Hollister v Medik Ostomy*⁴³⁶ The case concerned trade mark parallel imports, with the issue being the assessment of an account of profits. When the case came before the court at first instance⁴³⁷ the account of profits had been reduced, on the basis that this reflected the minimal damage to the IP right holder. In an acknowledgment that the provisions of Article 13(1) were not entirely clear,⁴³⁸ Kitchen L.J. stated that “The Community legislature may well have used the term ‘damages’ in a broad sense to include both reimbursement of the right holder’s lost profits and the return of profits by the infringer.”⁴³⁹ He went on to state that “Member States must provide a right

the Directive refers to an award of ‘a lump sum on the basis of elements such as at least the amount of royalties or fees.’ The European Commission had clarified that this should include the hypothetical royalty, as well as the ‘expense incurred by the right holder such as administrative expenses incurred in identifying the infringement and researching its origin,’ Proposal for a Directive, COM (2003) 46 final, 30 January 2003 (The Proposal), 23

⁴³⁵ *Madonna Ciccone (formerly Ritchie) v Associated Newspapers Limited, Bonnie Robinson*, [2009] EWHC 1107 (Ch) [24].

⁴³⁶ *Hollister Incorporated Dansac AS v Medik Ostomy Supplies Ltd* [2012] EWCA Civ 1419.

⁴³⁷ *Hollister Incorporated Dansac AS v Medik Ostomy Supplies Ltd* [2010] EWPCC 40.

⁴³⁸ *Hollister* (n 436) [60].

⁴³⁹ *Hollister* (n 436) [60].

holder with a remedy which is appropriate to the prejudice suffered by the right holder and takes account of all relevant circumstances such as the profits that the right holder has lost and the profits that the infringer has made.”⁴⁴⁰ As Cornwell notes,⁴⁴¹ this was potentially a *sui generis* meaning of the term ‘damages’, but the court did not explore it further, the decision being to overturn the decision at first instance. Kitchen L.J. referred to Recital 26 of the Directive and considered that the requirements of effectiveness, proportionality and deterrence were compliant with an account of profits.⁴⁴² This was dealt with on the basis that the infringer does not benefit from the infringement⁴⁴³ and there is no element of punishment, with discretion to refuse an account where it would produce an unjust result. That means it is proportionate.⁴⁴⁴ The issue of deterrence arises from the fact that the infringer will know that they will not be able to retain any profits from the infringement.⁴⁴⁵

It is usually said that the infringer is treated as if he or she conducted the infringement on behalf of the claimant.⁴⁴⁶ The original determination of deciding on an award of profits in *Hollister*⁴⁴⁷ was to (i) assess the account on the normal basis under English law, (ii) consider the extent of damage caused to the claimant by the infringement and the issue of proportionality, in all the circumstances of the case, and (iii) decide what final sum should be awarded having regard both to the sum assessed on the account step (i) and the factors considered at step (ii).⁴⁴⁸ The Court of Appeal decided not to refer the case to the CJEU for clarification as to the correct approach for making an award of profits, which could have had the effect of creating certainty about the application of Article 13(1) in these circumstances.

Phillip Johnson has noted the potential incompatibility of the availability of an election between damages and an account of profits, with Article 13 of the Enforcement

⁴⁴⁰ *Hollister* (n 436) [60].

⁴⁴¹ Cornwell (n 426) 10.

⁴⁴² *Hollister* (n 436)[60]-[65], [69].

⁴⁴³ *Hollister* (n 436)[69].

⁴⁴⁴ *Hollister* (n 436)[69]

⁴⁴⁵ *Hollister* (n 436)[69].

⁴⁴⁶ See Phillip Johnson, ‘Damages’ in European Law and the Traditional Accounts of Profit, 2013 *Queen Mary Journal of Intellectual Property*, 3, 296-306, 296.

⁴⁴⁷ *Hollister* (n 436) [68].

⁴⁴⁸ *Hollister* (n 436) [68].

Directive.⁴⁴⁹ He notes that the two remedies are often described as inconsistent, as damages represent the rejection of the defendant's acts, whereas an account represents the adoption of those acts.⁴⁵⁰ Whilst the Court of Appeal in *Hollister* referred to the remedies as alternatives⁴⁵¹ and noted the need for an election, there was no claim for both. The uncertainty is derived from the reference in Article 13(1)(a) which requires the court to take into account, 'all appropriate aspects,' such as economic consequences. This includes 'lost profits' and 'unfair profits'. The former is probably the closest to damages and the latter to an account of profits,⁴⁵² but the wording is suggestive of *both* remedies being available under the provisions of Article 13, which takes preference over Recital 26 and which refers to 'all appropriate aspects, such as loss of earnings or unfair profits. This suggests that an election is permitted.⁴⁵³

In the *Hollister* case, the Court of Appeal considered the issue of 'unfair profits'. Article 13 permits the recovery of *at least* unfair profits, but there is a lack of clarity as to how this will be interpreted. The reference to the words *at least* are suggestive that some overheads may be permitted. Having undertaken an assessment of this point, it determined that the infringer must prove that the overheads are attributable to the infringement⁴⁵⁴ and where the right holder's business was not running at full capacity there has been no lost opportunity to sell the non-infringing goods. The court held that in those circumstances the overheads had not been increased by the infringing activity and those overheads could not be deducted from the profits.⁴⁵⁵

Following the *Hollister* case, the courts paid scant regard to the Enforcement Directive. In *Kohler Mira Ltd v Bristan Group Ltd*,⁴⁵⁶ a case concerning an inquiry as to damages, following a judgment by Birss HHJ, involving an action about electrical shower units and infringement of two Community registered designs. The basis of the claims for

⁴⁴⁹ Johnson, *Damages in European Law* (n 446) 296-306, See also Ashley Roughton, Phillip Johnson and Trevor Cook, *The Modern Law of Patents*, (2nd ed. Lexisnexis 2010), 14, 189 and Gwilym Harbottle, 'The Implementation in England and Wales of the European Enforcement Directive' (2006) 1 JIPLP 719, 726.

⁴⁵⁰ Johnson, *Damages in European Law* (n 446).

⁴⁵¹ *Hollister* (n 436) [54], [55].

⁴⁵² Johnson, *Damages in European Law* (n 446) 296-306.

⁴⁵³ Johnson, *Damages in European Law* (n 446) 296-306.

⁴⁵⁴ *Hollister* (n 436) [85].

⁴⁵⁵ *Hollister* (n 436) [86].

⁴⁵⁶ *Kohler Mira Ltd v Bristan Group Ltd*, [2014] EWHC 1931 (IPEC).

damages, were lost profits on the sale of showers that the claimant would have made had the defendant not infringed, royalties on sales by the defendant of infringing showers that did not cause the claimant lost sales, additional advertising and promotional costs incurred by the claimant as a result of the infringement and an uplift of 10% on the sums claimed for moral prejudice, in accordance with Article 13(1)(a) of the Enforcement Directive. The claim was subject to the £500,000 overall cap in the court and also under section 239(1)(c) of the CDPA 1988.⁴⁵⁷ The court considered the case of *Hollister* on the issue of the profit made by the defendant on the infringing sales.⁴⁵⁸ The costs consisted of material cost, freight and duty, as well as marketing and development, warehouse and distribution, sales and administrative expenses. The court in *Kohler* found that there was no difference to the proper calculations of profits from an infringing business, whether they are done in the context of an account of profits or an inquiry as to damages and that the approach taken by the Court of Appeal in *Hollister*, in relation to which costs can be deducted in a calculation of net profits is the approach which is fairest and most appropriate. Profits were to be assessed without deductions for warehousing and distribution, selling and administration. The court made reference to Article 13(1)(a) and the claim for A 10% uplift on the overall award for damage caused by moral prejudice. It was accepted on behalf of the claimant that the 10% was a figure ‘plucked from the air’ and was based on moral prejudice for the loss of exclusivity for a striking design. The court found that this was an economic loss and that the one thing which is clear about ‘moral prejudice’ is that it is not an economic factor and it is likely to arise only in very particular circumstances and these are not those.⁴⁵⁹ The issue of deterrence did not arise in the *Kohler* case, but it did arise in the case of *Original Beauty Technology Co. Ltd & Ors v G4K Fashion Ltd & Ors*,⁴⁶⁰ which will be considered in Chapter Four, in the context of awarding additional damages. However, it failed to argue the issues in relation to the Enforcement Directive 2004/48/EC.

⁴⁵⁷ Section 239(c) of the CDPA 1988, provides that where a defendant has undertaken to take a licence of right under UDR’s in infringement proceedings, the damages shall not exceed double the amount which would have been payable by him as a licensee, if such a licence had been granted before the earliest infringement.

⁴⁵⁸ *Kholer Mira* (n 456) [47]–[55].

⁴⁵⁹ *Kholer Mira* (n 456) [59] [60].

⁴⁶⁰ *Original Beauty Technology Co. Ltd & Ors v G4K Fashion Ltd & Ors*, [2021] EWHC 3439 (Ch).

Following the *Hollister* case,⁴⁶¹ Article 13(1) of the Directive was not substantially considered until the IPEC case of *Henderson v All Around the World Recordings Ltd*.⁴⁶² This was a case concerning the infringement of the claimant's recording rights and the court initially had to determine what the hypothetical royalty should be, in accordance with *Force India Formula One Team Limited v 1 Malaysia Racing Team Sdn Bhd*,⁴⁶³ before going on to consider the Directive. The claimant relied upon Regulation 3 of the 2006 Regulations⁴⁶⁴ to support her remaining heads of claim, as this implements Article 13(1) of the Directive. The court stated that although the explanatory note at the end of the 2006 Regulations does not say so, the view appears to have been taken that there was no need to implement Article 13(2) of the Directive.⁴⁶⁵ Regulation 3 of the 2006 Regulations is not drafted in identical terms to Article 13(1) of the Enforcement Directive, but the Directive takes precedence.⁴⁶⁶ Regulation 3 states that:

*3(1) Where in an action for infringement of an intellectual property right the defendant knew, or had reasonable grounds to know, that he engaged in infringing activity, the damages awarded to the claimant shall be appropriate to the actual prejudice he suffered as a result of the infringement. (2) When awarding such damages (a) all appropriate aspects shall be taken into account, including in particular, (i) the negative economic consequences, including any lost profits, which the claimant has suffered, and any unfair profits made by the defendant; and (ii) elements other than economic factors, including the moral prejudice caused to the claimant by the infringement ; or (b) where appropriate, they may be awarded on the basis of royalties or fees which would have been due had the defendant obtained a licence;*⁴⁶⁷ (3) This Regulation does not affect the operation of any enactment or rule of law relating to remedies for the

⁴⁶¹ *Hollister* (n 436).

⁴⁶² *Henderson v All Around the World Recordings Ltd* [2014] EWHC 3087 (IPEC).

⁴⁶³ *Force India Formula One Team Limited v 1 Malaysia Racing Team Sdn Bhd* [2012] EWHC 616 (Ch); [2012] RPC 29 (Arnold J.) [18] The principles can be summarised as (i) the overriding principle is that damages are compensatory; (ii) the primary basis for the assessment is to consider what sum would have been arrived at in negotiations between the parties, had each been making reasonable use of their respective bargaining positions; (iii) the fact that one or both parties would not in practice have agreed to make a deal is irrelevant; (iv) as a general rule, the assessment is to be made at the date of the breach; (v) where there has been nothing like an actual negotiation between the parties, it is reasonable for the court to look at the eventual outcome and to consider whether or not that is a useful guide to what the parties would have thought at the time of their hypothetical bargain; (vi) the court can take into account other relevant factors and in particular delay on the part of the claimant in asserting its rights.

⁴⁶⁴ Intellectual Property (Enforcement etc) Regulations 2006.

⁴⁶⁵ *Henderson* (n 462) [63].

⁴⁶⁶ *Henderson* (n 462) [63].

⁴⁶⁷ *Henderson* (n 462) [64].

*infringement of intellectual property rights except to the extent that it is inconsistent with the provisions of this Regulation.*⁴⁶⁸

It was common ground that Article 13(1) applied to the case, as a previous hearing before Birss HHJ had found that the defendants had the requisite knowledge that they had engaged in an infringing activity.⁴⁶⁹ The court refused to make an award based on loss of royalties, as there had been an injunction in place and the claimant could not have it both ways, with an injunction and damages on sales that did not happen because of the injunctive relief.⁴⁷⁰

The assessment of Article 13 of the Enforcement Directive went on to consider whether Regulation 3(2)(a)(i) and by implication Article 13(1)(a) should be interpreted to allow cumulatively, both lost profits and any unfair profits accrued to the defendant.⁴⁷¹ The court noted that as a matter of English law, the remedies of an inquiry into damages on one hand and an account of profits on the other, are only available as alternatives.⁴⁷² In IP proceedings, the claimant is free to select one or the other, but is not entitled to both. As Kitchen LJ stated in *Hollister*⁴⁷³ “An assessment of the damage caused to the claimant forms no part of an account of the profits made by the infringer and the approach adopted by the judge constituted an illegitimate amalgamation of two quite different ways of assessing compensation.” In *Henderson*⁴⁷⁴ Hacon HHJ, considered the application of Articles 13, noting that leaving aside cases where there was an absence of the requisite knowledge, it is clear from Article 13(2) that that the claimant retains the right to elect between an inquiry as to damages or an account of profits in the usual way. However, where Article 13(1) is relied upon, when the requisite knowledge is proved, the court must take into account the relevant aspects of the actual prejudice suffered by the claimant as a result of the infringement and these aspects include both lost profits and the defendants’s unfair profits. The court referred to the anomaly between Article 13(1) and Article 13(2), in that the

⁴⁶⁸ *Henderson* (n 462) [65].

⁴⁶⁹ *Henderson* (n 462) [66].

⁴⁷⁰ *Henderson* (n 462) [68].

⁴⁷¹ *Henderson* (n 462) [72].

⁴⁷² *Henderson* (n 462) [73]. See *Redrow Homes Ltd v Betts Brothers plc* [1998] RPC 793 (HL), at 796-7.

⁴⁷³ *Hollister* (n 436) [71], discussed in *Henderson* (n 462) [73].

⁴⁷⁴ *Henderson* (n 462) [75] [76].

former does not expressly permit the recovery of the defendant's profits by way of an alternative, but the latter does, even though in those circumstances, the requisite knowledge is not present. It was possible that the term 'damages' should be given a broad meaning, to include 'restitutionary damages',⁴⁷⁵ but Hacon HHJ stated that he found it hard to envisage circumstances in which an award for both damages and an account of profits would be appropriate to the actual prejudice suffered.⁴⁷⁶

3.4 Punitive damages and Article 13

The issue of punitive damages was specifically discussed in *Henderson*,⁴⁷⁷ with the court considering Recital 26 of the Enforcement Directive,⁴⁷⁸ which reinforces that to award more than objectively assessed compensation, carries the risk of imposing punitive damages.⁴⁷⁹ In considering punitive damages, the court discussed the basis of 'unfair profits'.⁴⁸⁰ Hacon HHJ dismissed the notion that Article 13(1)(a) could be interpreted to always take account of unfair profits, in cases of knowing infringement, on the basis that if profits are automatically unfair because they are derived from acts of knowing infringement, the defendant would be deemed to always have the benefit of unfair profits and the claimant would be almost bound to be entitled to a bonus on top of damages for loss of profit. The quantum of the bonus would then potentially increase in proportion to the defendant's profit. The result of this interpretation would be inconsistent with the overriding aim of Article 13(1) of awarding damages appropriate to the actual prejudice suffered as a result of the infringement and it would also be inconsistent with the aim of avoiding punitive damages.⁴⁸¹ The court had to assess the correct interpretation of Article 13(1)(a) and it looked at the situation where the claimant would not receive adequate compensation for the actual prejudice

⁴⁷⁵ Restitutionary damages, see Francesco Giglio, 'Restitution for Wrongs: A Comparative Analysis,' (2001) Oxford U Comparative L Forum 6, at ouc.if.law.ox.ac.uk; see also *Lipkin Gorman v Karpnale Ltd*, [1991] 2 AC 548 (HL).

⁴⁷⁶ *Henderson* (n 462) [76].

⁴⁷⁷ *Henderson* (n 462) [77] [78][79].

⁴⁷⁸ Recital 26 of the Enforcement Directive 2004/48/EC, which states that the aim is not to introduce an obligation to provide for punitive damages, but to allow for compensation based upon an objective criterion while taking account of the expenses incurred by the right holder, such as the costs of identification and research. The Recital also paraphrases art 13(1) of the Directive.

⁴⁷⁹ *Henderson* (n 462) [77].

⁴⁸⁰ *Henderson* (n 462) [79].

⁴⁸¹ *Henderson* (n 462).

that had been suffered, if the damages were assessed by reference to lost profits, moral prejudice and expenses under Article 13(1)(a), or royalties according to the 'user principle' under Article 13(1)(b). In that situation there was flexibility to award an additional sum related to the profit the defendant had made from the knowing infringement.⁴⁸² The circumstances where this could arise, included where the defendant had not made a direct financial profit from his infringement but had expanded his business by way of sales or reputation, therefore resulting in a loss to the claimant from the competing, infringing business.⁴⁸³ The court made an award of £5,000 by way of unfair profits on the basis that the claimant suffered a loss to the extent that her name and reputation would have been enhanced by the release of her song and the defendants received unfair profits in the sense that the claimant was not compensated by them for the loss of the ability to promote her name.⁴⁸⁴ This is a case where a straightforward award of punitive damages would have been more appropriate, rather than unfair profits.

3.5 *Moral prejudice and Article 13*

The concept of 'moral prejudice' merited extensive discussion in *Henderson*⁴⁸⁵ and the academic basis for them considered.⁴⁸⁶ The basis for damages in this case, was (i) mental distress, (ii) loss of promotional opportunity, (iii) injury to feelings and (iv) humiliation. The nomenclature of 'moral prejudice' is novel in English law, but the concept of compensation for non economic loss is not. In *Nichols Advanced Vehicle Systems Inc v Rees*⁴⁸⁷ the court made an order for additional damages in accordance with section 17(3) of the Copyright Act 1956, on grounds which included the

⁴⁸² *Henderson* (n 462) [80].

⁴⁸³ *Henderson* (n 462) [81]. The court expressed a view that where the defendant has calculated that his benefit from the infringement outweighs the actual prejudice to the claimant, the court would readily infer that the claimant will suffer prejudice that goes beyond lost sales, making extra compensation appropriate.

⁴⁸⁴ *Henderson* (n 462) [84].

⁴⁸⁵ *Henderson* (n 462) [86]-[95].

⁴⁸⁶ See Parish, Awarding Moral Damages to Respondent States in Investment Arbitration, 29 Berkeley J. Intl Law 225 (2011); Reports of International Arbitral Awards, United Nations, Volume VII, Opinion in the Lusitania Cases, 1 November 1923; Bouche, Intellectual Property Law in France, Kluwer Law International, 2011, para 332;

⁴⁸⁷ *Nichols Advanced Vehicle Systems Inc v Rees*, [1979] RPC 127, at p 140.

humiliation of the claimant. The basis was summed up by Templeman J as, “This is a case where the defendants, by stealing a march based on infringement, received benefits and inflicted humiliation and loss which are difficult to compensate and difficult to assess in the normal course.” Considering that the Enforcement Directive 2004/48/EC was intended to harmonise IP enforcement across the EU, it will be necessary for the term ‘moral prejudice’ to have a unified meaning under national laws.⁴⁸⁸ The court referred to the very limited EU Commission Memorandum of 30 January 2003,⁴⁸⁹ which, at page 9, refers to the losses that businesses suffer as a result of counterfeiting and piracy, to include intangible losses and the moral prejudice suffered because of the loss of brand image with customers and future sales, prejudicial downgrading of reputation and originality of the genuine products. The implication was that the EU legislature primarily had in mind compensation for loss of the reputation or exclusive image enjoyed by the claimant’s goods, as a result of the pirated copies. The court was not convinced that this equated to a non-economic loss. It was assumed that Article 13(1)(a) in principle entitles a claimant to recover in respect of mental distress, injury to feelings and humiliation, but not loss of promotional opportunity, which is an economic loss and taken into account in relation to unfair profits. The moral prejudice contemplated by Article 13(1)(a) was to be confined to prejudice arising in circumstances, in particular, where the claimant suffers little or no financial loss and would be left without compensation unless moral prejudice is taken into account or the compensation would not be proportionate to the overall damage suffered, where this includes significant moral prejudice. These types of cases would benefit from a *sui generis* regime of damages, of a punitive nature.

3.6 *Flagrancy and additional damages considered*

Finally, the court had to discuss the applicability of section 191J(2) of the CDPA 1988, which is the same as section 97(2) of the CDPA 1988, but relates to performance rights, rather than copyright.⁴⁹⁰ The application of additional damages under both

⁴⁸⁸ *Henderson* (n 462) [89]-[95].

⁴⁸⁹ European Commission Memorandum, 30 January 2003, COM (2003) 46 final, prepared during the drafting of the Enforcement Directive 2004/48/EC.

⁴⁹⁰ *Henderson* (n 462) [96]-[103].

sections of the 1988 legislation is altered by Article 13(1)(a), taken together with Regulation 3(3) of the 2006 Regulations. The basis for the court's assertion was that the requirement for flagrancy under section 97(2) is no longer required, even though the requisite knowledge is still required, which will have been an implied constituent of flagrancy. It appears to be a lower hurdle to overcome and the matters referred to in Article 13(1)(a) must now be taken into account. Article 13(1)(a) now has an independent effect and if this is correct, section 191J(2) of the CDPA 1988 has effectively become redundant (and hence section 97(2) by reason of its conformity with Article 13(1)(a)). The court gave as an alternative, the operation of Article 191J(2) and Article 13 (1)(a), as operating in parallel.⁴⁹¹ Flagrancy had not been admitted in the case, but the court was invited to infer it from the findings of the judgment in relation to liability. The findings were sufficient to establish "scandalous conduct, deceit and such like and it includes deliberate and calculated infringement" in accordance with *Ravenscroft v Herbert*.⁴⁹² They arguably go further than establishing a "couldn't care less" attitude on the part of the defendants in *Henderson*, in accordance with the criterion in *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd*,⁴⁹³ in which the court observed that section 97(2) of the CDPA 1988 was not intended to be punitive or exemplary.⁴⁹⁴ Section 191J(2) of the CDPA 1988 remained unaffected by Article 13(1)(a) of the Enforcement Directive, but the awards are not cumulative, so the sum of £5,000 for unfair profits under Article 13(1)(a) would have been reflected in the same sum, had an award been made under section 191J(2), there being no practical difference which provision was relied upon.⁴⁹⁵

It would have been helpful if Hacon HHJ had undertaken a more detailed assessment of the way in which Article 13(1) should be applied, but he followed his decision in *Henderson*, in the 2016 case of *DKH Retail Ltd v H. Young (Operations) Ltd*⁴⁹⁶ without further assessment as to the application of Article 13. Subsequent consideration of the Directive came in the case of *Absolute Lofts South West London Limited v Artisan Home*

⁴⁹¹ *Henderson* (n 462) [97].

⁴⁹² *Ravenscroft v Herbert*, [1980] RPC 193, at 208, (Brightman J).

⁴⁹³ *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] RPC 49, 52, (Pumfrey J).

⁴⁹⁴ *Nottingham Healthcare NHS Trust* (n 493) 48-51.

⁴⁹⁵ *Henderson* (462) [103].

⁴⁹⁶ *DKH Retail Ltd v H. Young (Operations) Ltd* [2014] EWHC 4034 (IPEC).

Improvements Limited,⁴⁹⁷ in which Hacon HHJ identified that, unlike its inaccurate transposition in Regulation 3(2)(b) of the 2006 Regulations, Article 13(1)(b) does not simply equate to existing English law ‘royalty’ or ‘user’ principles. The reference in Article 13(1)(b) to an award of damages ‘such as at least’ the sum due if the infringing acts had been licenced, provides national courts with ‘express authority to go above what would have been negotiated between a willing licensor and willing licensee.’⁴⁹⁸ A royalty based award could be supplemented with the infringer’s unfair profits or an award for moral prejudice.⁴⁹⁹ The court noted that ‘as a matter of permissible national law there is apparently unfettered freedom’ to exceed the hypothetical royalty, given the minimum standards provision of Article 2 of the Enforcement Directive.

What stood out from the findings of Hacon HHJ, was the fact that he continued to consider that an award of ‘unfair profits’ could never amount to the traditional remedy of an account of profits in addition to compensatory damages.⁵⁰⁰ He suggested that Article 13(1) does not align with the longstanding English law principles that recoverable losses are limited to what was foreseeable, caused by the wrong and not excluded from recovery by public or social policy. He stated that “I think it would be a mistake to interpret the limitation on the award of damages in Article 13(1) to the actual prejudice suffered by the right holder, in the same way. To my mind, it is a looser limitation than the English concept of strictly compensatory damages.”⁵⁰¹ While the Enforcement Directive’s recitals prohibit punitive damages, they go ‘no further than that.’⁵⁰² Article 13(1) damages can ‘include a restitutionary element where appropriate.’⁵⁰³ Hacon HHJ appeared to change his view from his earlier decision in *Henderson*, in that he held that additional statutory damages continue to have effect, with the claimant being entitled to whichever of those, or Article 13(1) damages was the greater.⁵⁰⁴ The actual prejudice in *Absolute Lofts* was that the claimant had not

⁴⁹⁷ *Absolute Lofts South West London Limited v Artisan Home Improvements Limited* [2015] EWHC 2608 (IPEC).

⁴⁹⁸ *Absolute Lofts* (n 497) [47].

⁴⁹⁹ *Absolute Lofts* (n 497) [48].

⁵⁰⁰ *Absolute Lofts* (n 497) [52].

⁵⁰¹ *Absolute Lofts* (n 497) [53].

⁵⁰² *Absolute Lofts* (n 497) [52].

⁵⁰³ *Absolute Lofts* (n 497) [52].

⁵⁰⁴ *Absolute Lofts* (n 497) [36]-[42].

shared in the unfair profits made by the defendant from the infringement.⁵⁰⁵ Hacon HHJ also, in referring to Article 3, of the Directive, that ‘an element of deterrence is more likely to be needed where there has been knowing infringement.’⁵⁰⁶ That view must be correct and the presence of the requisite knowledge should be one of the main factors in making an award of punitive damages.

The concept of deterrence as discussed in *Absolute Lofts*, should be explored further. The case had concerned the defendant’s unauthorised use of 21 photographic images of loft conversions undertaken by the claimant and the court had to determine the quantum of damages for the infringement of the claimant’s copyright. The issues were the level of compensatory damages and whether the claimant was also entitled to additional damages in accordance with section 97(2) of the CDPA 1988, or Article 13(1) of the Enforcement Directive 2004/48/EC. The parties had agreed that the ‘user principle’ should be applied and the sum of £300.00 was awarded, which was the amount that *Artisan* subsequently paid for the licensed images. Hacon HHJ took the view that evidence as to what a professional photographer would have charged, £700.00 to £9,000 was irrelevant, as a defendant who was willing to hold out images of another company’s loft conversion was likely to have paid as little as possible and therefore £300.00 was as good a guide as any to what would have hypothetically been agreed between the parties.⁵⁰⁷

The difficulty arose in the consideration of additional damages and the two regimes of section 97(2) of the CDPA 1988 and Article 13(1) of the Enforcement Directive. Section 97(2) permits additional damages where an infringement is flagrant and Article 13(2) requires the court to take into account the claimant’s lost profits, any unfair profits made by the infringer and any moral prejudice caused to the claimant, where the requisite knowledge of knowing or having reasonable grounds to know, is present. The knowledge was attributed to the second defendant, who was a director of *Artisan* and described as being a man with no respect for the truth.⁵⁰⁸ The claim for additional damages was brought on the basis of section 97(2) of the CDPA 1988, with reference

⁵⁰⁵ *Absolute Lofts* (n 497) [58].

⁵⁰⁶ *Absolute Lofts* (n 497) [55] and [58].

⁵⁰⁷ *Absolute Lofts* (n 497)[24].

⁵⁰⁸ *Absolute Lofts* (n 497) [31] [35].

to the case of *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd*,⁵⁰⁹ in which it was held that a 'couldn't care less' attitude was sufficient to engage section 97(2). The application of Article 13(1) was not without its difficulties. The court had evidence in the abbreviated form of accounts for *Artisan*, which did not include figures for profit and loss. However, in its first full year of trading, in the year ending October 2011, it had a turnover of £226,000, rising year on year, reaching £498,000 in 2013, before it was forced to remove the infringing photographs in May 2014, following which, its turnover was reduced to £180,000 with the company going into liquidation in May 2015. There was no direct evidence of the reduced profits, but the court inferred that the presence of the photographs on the *Artisan* website encouraged trade for them and that their own contribution was negligible. *Artisan* had made profits whilst the images were on their website, without which, their trading may have ended sooner. To that extent, they profited from their acts of infringement and those profits were unfair, having been generated by misrepresentation, which might be taken to echo to some extent, 'the overtones of dishonesty and intentional wrongdoing' which characterise flagrancy.⁵¹⁰

In assessing the quantum of additional damages, the court concluded that the benefit to *Artisan* did not directly affect *Absolute Lofts* such as to require compensation in the strict sense, the unfair profits were made on the back of the intellectual creativity of *Absolute Lofts* and that fell to be compensated for actual prejudice in the looser sense of the term. Strictly compensatory damages of £300.00 would lack the dissuasive element required by Article 3(2) of the Enforcement Directive and an award of £6,000 was made.⁵¹¹ A second assessment was then made under section 97(2) of the CDPA 1988 as the infringement was flagrant and whilst the route to assessment differed, the same figure of £6,000 was arrived at. This was not cumulative and the total award was £6,300. The cases of *Henderson* and *Absolute Lofts*, did not expressly confer upon the court, the ability to award punitive damages. Hacon HHJ appeared to recognise the limitations of compensatory damages, such as in the *Absolute Lofts* case, where compensation alone is minimal or nominal and there is no direct evidence of reduced

⁵⁰⁹ *Nottinghamshire Healthcare NHS Trust* (n 493) [52].

⁵¹⁰ *Absolute Lofts* (n 497) [51].

⁵¹¹ *Absolute Lofts* (n 497) [58] [59].

profits. The loosening of the strictly compensatory principles, to include a restitutionary element or a dissuasive element, could not properly be considered to be the imposition of a punitive regime and does not have a sufficient punitive element to successfully deter infringement.

Article 13(1) was again considered by the court in *Phonographic Performance Ltd v Raymond Hagan*⁵¹² (*PPL v Hagan*). The claim concerned a breach of copyright in sound recordings played in the defendant's premises. The court subsequently had to make an inquiry into damages which were assessed at £12,983.12. There was a subsequent hearing on the issues of interest, costs and additional damages pursuant to section 97(2) of the CDPA 1988, with a subsequent claim for damages pursuant to Article 13(1) of the Enforcement Directive. Hacon HHJ again revisited his earlier decisions in the assessment of the two provisions. He noted that the requisite knowledge is an express requirement in Article 13(1) of the Directive, but is not in section 97(2) of the CDPA 1988. However, section 97(2) has to take account of all the circumstances of the case and in particular, 'flagrancy', which implies knowledge and it is difficult to imagine circumstances in which additional damages would be appropriate where there had been infringement without knowledge.⁵¹³ In concluding that the defendant had the requisite knowledge, he found that the defendant had held a *PPL* licence previously; he had received letters from the claimant's solicitors; the infringement continued after the proceedings were initiated; and it was notorious in the music industry that it is necessary to obtain a licence from *PPL* in order lawfully to play music in public.⁵¹⁴

Hacon HHJ clarified his discussions in *Absolute Lofts* about the relationship between section 97(2) and Article 13(1) and he reiterated his conclusion that while Article 13(1) provides an EU wide baseline minimum protection for owners of IP rights, Member States are not prohibited from enacting provisions affording a higher degree of protection. So where Article 13(1) provides for more extensive remedies than section 97(2), a successful claimant can rely on the Directive. To the extent that section 97(2)

⁵¹² *Phonographic Performance Ltd v Raymond Hagan (aka Raymond Edward O'Hagan) t/a Lower Ground Bar and the Brent Tavern (1) Edward Hagan t/a Lower Ground Bar (2) Gerard Byrne t/a The Brent Tavern (3)* [2016] EWHC 3076 (IPEC) (*PPL v Hagan*).

⁵¹³ *PPL v Hagan* (n 512) [16].

⁵¹⁴ *PPL v Hagan* (n 512) [17].

offers the greater remedy, the copyright owner can rely on the CDPA 1988. The provisions are not cumulative because of the overlap between the relief provided by section 97(2) and the unfair profits provision of Article 13(1). However, separate relief is available under Article 13(1), in that non-economic factors will always be additionally available in the limited appropriate circumstances.⁵¹⁵ In *PPL v Hagan*, the claimant had already received damages which represented the payment of licence fees that the defendant should have paid in the first place and there were no non-economic factors to be taken into account. The claimant argued for unfair profits under Article 13(1) as the defendant benefited indirectly from the music played in his premises, which he was entitled to do, if he paid licensing fees, so his only benefit was the non-payment of those fees, which he has subsequently been ordered to pay, by way of damages.⁵¹⁶

Hacon HHJ held that the claimant's only entitlement to additional relief, was under section 97(2) on the basis of flagrancy⁵¹⁷ and it is in this context that he gave more detailed consideration to the extent to which an award of additional damages is likely to be dissuasive. The defendant's flagrancy was that he was prepared to pay licence fees to *PPL* only as a last resort, which went further than knowing infringement. The compensatory awards indicate that his infringement was not on a grand scale,⁵¹⁸ but the court considered that there were two ways of looking at the dissuasive requirement; one being that the defendant should be dissuaded from infringing again and the second is that other actual or potential infringers should also be dissuaded from infringing. In deterrence literature, the former being specific deterrence and the latter being general deterrence.⁵¹⁹ Hacon HHJ accepted that the court could take both into account.⁵²⁰ The application of section 97(2) had to be applied in the context of the *Marleasing Principle*,⁵²¹ construing section 97(2) so that it is consistent with the Enforcement Directive as a whole, as Article 3 of the Directive requires *inter alia*, that Member States should provide remedies necessary to ensure the enforcement of IP rights that are "effective, proportionate and dissuasive."⁵²² The specific dissuasiveness

⁵¹⁵ *PPL v Hagan* (n 512) [18].

⁵¹⁶ *PPL v Hagan* (n 512) [21].

⁵¹⁷ *PPL v Hagan* (n 512) [22].

⁵¹⁸ *PPL v Hagan* (n 512) [23].

⁵¹⁹ See Chapter One for discussion on deterrence.

⁵²⁰ *PPL v Hagan* (n 512) [25].

⁵²¹ *Marleasing* (n 332).

⁵²² *PPL v Hagan* (n 512) [24].

or deterrence for the defendant in *PPL v Hagan*, was not as robust as the general dissuasiveness. The defendant was an illiterate alcoholic who was bankrupt and the court doubted that he represented much of a future infringement threat, so an award of £2,000 was deemed sufficient. Other actual or potential infringers were likely to be more robust than the defendant, not least financially and were more likely to represent an example that other infringers may be tempted to follow and require more dissuading than the defendant. Such infringers were therefore, deemed more likely to expose themselves to an award of additional damages on a higher scale.⁵²³

A contrary finding was made by Hacon HHJ in the case of *Pablo Star Media Ltd v Bowen*,⁵²⁴ concerning copyright in a photograph of Dylan Thomas and his wife, which was eventually assigned to the claimant. The defendant had infringed the copyright by including the photograph in a website which advertised holiday cottages in Wales. Damages in the sum of £250.00 were awarded on the basis of the user principle, but the court at first instance refused to award additional damages under section 97(2) of the CDPA 1988. On appeal Hacon HHJ upheld that decision, taking into account the limited period of 17 days use and the fact that the defendant had received practically no benefit from the use of the image, despite the fact that he had known that he could not use it without permission. Hacon HHJ concluded that there was no prospect of the defendant infringing the copyright in the future, nor that there were third parties in need of dissuasion from carrying out minor infringements equivalent to this one.⁵²⁵ That view does not sit comfortably with the *Absolute Lofts* case,⁵²⁶ which expressly referred to the need for general deterrence. Article 13(1) of the Directive was not discussed in the this case, which relied upon section 97(2) of the CDPA 1988 only. However, it is arguable that the court should have considered the section in accordance with the Enforcement Directive under the *Marleasing Principles*⁵²⁷ and at least referred to Article 3, on the basis that to make an award of additional damages would not be proportionate in the circumstances.

⁵²³ *PPL v Hagan* (n 512) [26] [27].

⁵²⁴ *Pablo Star Media Ltd v Bowen*, [2017] EWHC 2541 (IPEC).

⁵²⁵ *Pablo Star Media* (n 524) [20] [26].

⁵²⁶ *Absolute Lofts* (n 497).

⁵²⁷ *Marleasing* (n 332).

3.7 *PPL v Ellis*

The leading case on additional damages in the UK is *Phonographic Performance Limited v Andrew Ellis t/a Bla Bla Bar*⁵²⁸ (*PPL v Ellis*). The case concerned a claim for additional damages for infringement by the defendant of the claimant's copyright, by the un-licensed playing of recorded music in his premises. The defendant was subject to an injunction, which he breached and for which a suspended prison sentence was imposed. There was also a claim for additional damages under section 97(2) of the CDPA 1988, to be awarded in addition to the suspended sentence. At first instance, Birss HHJ refused to make such an award on the ground that it was inappropriate to award such damages at the same time as imposing a suspended custodial sentence. The case came before Lewison L.J. on appeal. The nature of punishment for contempt of a court order is *inter alia* to uphold the authority of the court by punishing the contemnor and deterring others. It has nothing to do with the dignity of the court and everything to do with the public interest that court orders should be obeyed.⁵²⁹ That punishment does not compensate the claimant and a contempt of court will not entitle the claimant to a financial remedy.⁵³⁰ The judge made reference to two cases, where damages pursuant to section 97(2) had been awarded in addition to the imposition of a custodial sentence⁵³¹ and concluded that the ability to do so, was consistent with a view expressed by the Privy Council and the court could exercise its discretion to award such damages.⁵³² The basis for an award of damages in this case, was flagrancy by ongoing infringement in the face of an injunction. In *Sony Computer Entertainment Inc v Owen*⁵³³ Jacob J had confirmed that section 97(2) of the CDPA 1988 requires the court to have regard to 'all the circumstances', which plainly can include circumstances that the sales were done in breach of a court order, making the act flagrant. However, infringement in breach of a court order does not automatically make the infringement flagrant, although it usually will.⁵³⁴ Additional damages were not awarded in *PPL v Ellis*, because the court accepted that the defendant had breached the injunction due to a

⁵²⁸ *PPL v Ellis* (n 12).

⁵²⁹ *JSC BTA Bank v Solodchenko (No 2)* [2011] EWHC Civ 1241, [2012] 1 WLR 350, at [45] (Jackson L.J.).

⁵³⁰ *PPL v Ellis* (n 12) [7].

⁵³¹ *PPL v Fletcher* [2015] EWHC 2562 (Ch), Arnold J.; *PPL v Miller* [2016] EWHC 3738 (Ch)

⁵³² *PPL v Ellis* (n 12)[56] [57].

⁵³³ *Sony Computer Entertainment Inc v Owen* [2002] EWHC 45; [2002] EMLR 34, at [28] (Jacob J).

⁵³⁴ *PPL v Ellis* (n 12) [59] [60].

misunderstanding and although he should have taken advice, his conduct was not flagrant, which implies 'scandalous conduct or deceit'.⁵³⁵ The case had however, established the principle on appeal.⁵³⁶

PPL v Ellis sets out a detailed discussion on the nature of additional damages, which will be explored in detail in Chapter Four of this thesis. However, Lewison L.J. concluded that damages awarded under section 97(2) of the CDPA 1988 may include damages designed to punish or deter and such an award is not only triggered by flagrancy but may be awarded where the court considers that the infringer has derived benefit from the infringement. Damages awarded under section 97(2) do not need to be shoehorned into existing legal taxonomy, as they are a form of damages authorised by statute and their legal character is *sui generis*.⁵³⁷ Additional damages serve a valuable deterrent effect on both the infringer in the particular case under consideration and also more widely, in that they send the general message that infringement does not pay.⁵³⁸ They may be partly or indeed wholly punitive.⁵³⁹ The Enforcement Directive 2004/48/EC was discussed, noting that Article 2 permitted Member States to rely upon national laws which are more favourable for right holders than the Directive⁵⁴⁰ and therefore, on the face of it, a remedy under section 97(2), if more favourable to a right holder, is not affected by the Directive. Lewison L.J. concurred with Hacon HHJ in *Absolute Lofts* agreeing with him, subject to one qualification, in accordance with the decision of the CJEU in *Stowarzyszenie*⁵⁴¹ that a particularly egregious award of exemplary damages would amount to an abuse of rights.⁵⁴² Any award should therefore be proportionate in accordance with Article 3 of the Enforcement Directive 2004/48/EC. This would avoid the excessive level of punitive damages that can be awarded in the US for example.

⁵³⁵ See *Software Solutions Ltd & Ors v 365 Health and Wellbeing Ltd & Anor* [2021] EWHC 237 (IPEC) 141 for an updated assessment of flagrancy.

⁵³⁶ The principle of whether additional damages can be awarded in addition to the imposition of a prison sentence.

⁵³⁷ *PPL v Ellis* (n 12) [37].

⁵³⁸ *PPL v Ellis* (n 12) [38].

⁵³⁹ *PPL v Ellis* (n 12) [37].

⁵⁴⁰ *PPL v Ellis* (n 12) [39].

⁵⁴¹ *OTK* (n 392)[36]

⁵⁴² *PPL v Ellis* (n 12) [42].

3.8 *The effect of the Enforcement Directive 2004/48/EC*

The Enforcement Directive provided an enforcement framework that provided an EU wide, baseline minimum protection for IP right holders in its Member States, but it did not prohibit those states from enacting a higher level of protection.⁵⁴³ Whilst the TRIPS Agreement provides an International minimum level of enforcement, it sets general standards of IP protection, which provided flexibility, with considerable scope to apply those standards and it does not require any specific enforcement outcomes, only the implementation of suitable legal procedures and remedies, which do not have to be applied in any particular way. Article 41.1 of the Agreement requires Members to ensure that enforcement procedures as specified in Part III to be available to permit effective action against infringement, including expeditious remedies which constitute a deterrent to further infringements. TRIPS is more permissive than the Enforcement Directive, with Article 45.1 providing Member States with ‘the authority’ to order an infringer to pay the right holder damages adequate to compensate for the injury suffered as a result of the infringement. Article 45.2 gives Members the authority to order recovery of profits and/or the payment of pre-established damages. Article 13(1) of the Enforcement Directive, in contrast, requires Member States to ‘ensure’ that damages are appropriate to compensate for the actual prejudice suffered and sets out the requirements for those remedies to be applied, with a more permissive tone in Article 13(2), using the word ‘may’ to set out alternative methods of assessment to those in Article 13(1). The use of the words ‘authority’ in TRIPS, suggest a power not a duty to award damages, but it is generally assumed that it means that damages must be paid.⁵⁴⁴ The Enforcement Directive 2004/48/EC represented a more stringent set of rules for assessing awards of damages for IP infringement and the case law has shown that the courts have interpreted it to permit the awarding of damages for specific and general deterrence, which exceeds the basic obligation to award strictly compensatory damages. Recent FTA’s appear to have exceeded the requirements of the Directive and removed the need for the requisite knowledge.⁵⁴⁵ The CPTPP goes further than Article

⁵⁴³ *Absolute Lofts* (n 497) (Hacon HHJ) [18].

⁵⁴⁴ Carlos Correa, *Trade-Related Aspects of Intellectual Property Rights: A Commentary on the TRIPS Agreement* (2nd ed.), Oxford 2020), p 408.

⁵⁴⁵ For example, Ukraine FTA, Article 230 and Korea FTA, Article 10.49.

45.2 of TRIPS or Article 13 of the Enforcement Directive and mandates pre-established damages or additional damages in Article 18.74.6 and the requirement for deterrence is explicit. Now the UK has joined the CPTPP, it will need to amend the CDPA 1988, to explicitly provide for pre-established or additional damages. The Enforcement Directive generally reflected the UK's best practices on IP enforcement and did not require an extensive transposition process. The 'enhanced deterrent effect' of Article 13 has been created by judicial interpretation of its provisions, in cases such as *Absolute Lofts*,⁵⁴⁶ with judicial recognition that additional damages may be partly or wholly punitive.⁵⁴⁷ However, at this juncture there is an upper limit on the level of punitive damages that can be awarded, in that they cannot be so substantial that they are abusive in their application.⁵⁴⁸ The Enforcement Directive, like TRIPS, only sets minimum standards, so any adherence to FTA's, such as the CPTPP will not be incompatible with it.

3.9 Indirect effect after Brexit

The withdrawal of the UK from the EU following decades of EU membership since 1 January 1973, has been compared to removing an egg from an omelette.⁵⁴⁹ The principle UK statute is the EUWA 2018, which under section 1, repealed the ECA 1972, the means by which EU law had taken effect domestically. The EUWA 2018 converts EU law as it stood prior to completion day at 11pm on 31 December 2020. When the UK exited the EU at 11pm on 31 January 2020, the transition period, or implementation period, agreed between the EU and the UK under the terms of the Withdrawal Agreement on 17 October 2019 (WA 2019),⁵⁵⁰ was the time between 1 January 2020 and 31 December 2020. The intention of the legislation was to maintain continuity of law as it stood at 31 January 2020, when the UK was no longer a Member State of the EU. During this transition period EU law applied to the UK by virtue of Article 127(1) and (3) of the WA 2019, which provided that EU law will apply to and in

⁵⁴⁶ *Absolute Lofts* (n 497).

⁵⁴⁷ *PPL v Ellis* (n 12) [37].

⁵⁴⁸ *OTK* (n 392) [31].

⁵⁴⁹ J.D'Urso, "Brexit: Ex WTO Chief Pascal Lamy in "No deal warning", BBC News, 16 March 2017, at <https://www.bbc.co.uk/news/uk-politics-39295257>.

⁵⁵⁰ The European Union Withdrawal Agreement 2019, art. 39(1).

the UK during the transition period, unless otherwise provided in the Withdrawal Agreement and any reference to EU Member States in EU law will be understood as including the UK.

The TCA 2020 was implemented in the UK under the terms of the European Union (Future Relationship) Act 2020 (EUFRA 2020). This is a new international treaty between the UK and the EU, an 'external EU treaty' under Articles 216 and 217 of the TFEU. It does not create directly effective rights to individuals. Section 29 of the EUFRA 2020 provides that *(1) Existing domestic law has effect on and after the relevant day with such modifications as are required for the purposes of implementing in that law the Trade and Cooperation Agreement or the Security of Classified Information Agreement so far as the agreement concerned is not otherwise so implemented and so far as such implementation is necessary for the purposes of complying with the international obligations of the United Kingdom under the agreement.* It remains unclear how the TCA 2020 will impact on UK in the future.

The EUWA 2018 created the concept of "Retained EU Law," with section 6(7) of the Act providing that anything which, on or after completion day continues to be, or forms part of, domestic law, by virtue of section 2, 3 or 4 or subsection (3) or (6). Retained EU law under section 2 of the Act includes domestic primary or secondary legislation that is "EU-derived." The Intellectual Property (Enforcement etc) Regulations 2006 are regulations that were adopted to implement in the UK, the Enforcement Directive 2004/48/EC and therefore constitute 'EU-derived' retained legislation. Section 7(1)-(1A) of the EUWA 2018 provides that the domestic status of such law remains unchanged. Section 6 of the ECWA 2018 also sets out the rules regarding the interpretation and amendment of retained EU law. Section 6(3) provides that as a general rule, the domestic courts must decide any questions 'as to the validity, meaning or effect of any retained case law, which comprises retained EU law as well as domestic case law,⁵⁵¹ but they are not bound by any post completion day EU case law by way of interpretive sources.⁵⁵² If the retained EU law is modified by subsequent UK

⁵⁵¹ Retained EU case law and retained domestic case law are defined in section 6(7) of the EUWA 2018.

⁵⁵² Under section 6(1) EUWA 2018. However, section 6(2) provides that the courts 'may have regard to' post completion day EU case law.

law, section 6(6) provides that the general interpretive instruction under section 6(3) continues to apply in respect of the modified retained EU law, if doing so is consistent with the intention of the modifications.

It is necessary to consider the doctrines of EU supremacy and indirect effect, in order to understand how the EUWA 2018 affects these concepts. The EU supremacy principle is the EU legal normative term for the EU requiring Member States to apply an EU norm instead of an otherwise applicable domestic norm, where there is a conflict between the two.⁵⁵³ The case of *Poplawski*⁵⁵⁴ confirmed that the principle of the primacy of EU law cannot have the effect of undermining the essential distinction between provisions of EU law which have direct effect and those which do not and, consequently, of creating a single set of rules for the application of all the provisions of EU law which have direct effect and those which do not and consequently, of creating a single set of rules for the application of all the provisions of EU law by the national courts. A provision of EU law which does not have direct effect may not be relied on, as such, in a dispute coming under EU law in order to disapply a provision of national law that conflicts with it.⁵⁵⁵ The EU norm must therefore be sufficiently clear, precise and unconditional to be capable of being relied upon directly by individuals. The conflicting domestic norm is thus set aside or disapplied, with the disapplication of the domestic norm is closely associated with supremacy.⁵⁵⁶

Prior to Brexit, the EU supremacy principle was effective in the UK by virtue of section 2(1) of the ECA 1972. Following the enactment of the EUWA 2018, the EU supremacy principle is domesticated as retained EU law, by virtue of section 4(1) of that Act.⁵⁵⁷ The principle of the supremacy of EU law does not apply to any law made before

⁵⁵³ Case 6/64 *Flaminio Costa v ENEL* (EU:C:1964:66).

⁵⁵⁴ Case C-573/17 *Poplawski*, (ECLI:EU:C:2019:530) [60].

⁵⁵⁵ *Poplawski* (n 554) [62].

⁵⁵⁶ See M. Dougan, 'Primacy and the Remedy of Disapplication,' (2019) 56 *Common Market Law Review*, 1459, 1466.

⁵⁵⁷ EUWA 2018, section 4(1) provides that 'Any rights, powers, liabilities, obligations, restrictions, remedies and procedures which, immediately before IP completion day – (a) are recognised and available in domestic law by virtue of section 2(1) of the European Communities Act 1972, and (b) are enforced, allowed and followed accordingly, continue on and after IP completion day to be recognised and available in domestic law (and to be enforced, allowed and followed accordingly).

completion day,⁵⁵⁸ only to law made pre-completion.⁵⁵⁹ However, any modification made to law enacted pre-completion, is subject to ⁵⁶⁰the principle of EU supremacy, if the application of the principle is consistent with the intention of the modification in question.⁵⁶¹

The concept of direct effect was introduced by the CJEU in the case of *Van Gend en Loos* in 1963. Direct effect fills the gaps where EU law has not been transposed into national law or transposed incorrectly. It is the ability of a binding EU provision to be *invoked and relied upon* by an individual before a national court. Individual rights are created if the provision is sufficiently clear and precise and unconditional, in other words, it must be possible for a national judge to discern from the provision clear rights and obligations conferred on individuals. It should leave no discretion for the national executive or legislature to take any further implementing measures to ensure the measure takes effect.⁵⁶²

The principle of indirect effect is an interpretive tool by which individuals may use to rely on Directives against other individuals. Article 4(3) of the TEU⁵⁶³ was interpreted by the CJEU on the basis that national courts are under a duty to interpret national law consistently with EU law, so far as it is possible to do so, whether or not a Directive has direct effect.⁵⁶⁴ The use of the principle is left at discretion of the court, which has a duty of consistent interpretation or harmonious interpretation.⁵⁶⁵ The term indirect effect is used, because whilst direct brings EU rights to the individual directly, bypassing national law, indirect effect brings the right to the individual indirectly, via national law. A norm of EU law is used as an aid to the interpretation of a domestic rule.⁵⁶⁶ The interpretive duty is very ambitious in that all national law must be

⁵⁵⁸ EUWA 2018, s 5(1).

⁵⁵⁹ EUWA 2018, s5(2).

⁵⁶⁰ Case 26/62 *Van Gend en Loos v Netherlands* (ECLI:EU:C:1963:1).

⁵⁶¹ EUWA 2018, s 5(3).

⁵⁶² Drake, Sara ORCID:<https://orcid.org/0000-0002-1464-3395> and Hunt, Jo, ORCID:<https://orcid.org/0000-0003-1646-6158> 2022.. Clarifying the duties of the UK judiciary post-Brexit. *Modern Law Review* 85 (5), 1261-1273., orca.cardiff.ac.uk. 3.

⁵⁶³ Treaty of the European Union (TEU).

⁵⁶⁴ Case 14/83 *Von Colson* (EU:C:1984:153), [27]-[28].; Case C:98/09 *Sorge* (EU:C:2010:369), [49][55].

⁵⁶⁵ See C. Docksey, B. Fitzpatrick, 'The Duty of National Courts to interpret Law in Accordance With Community Law,' (1991) 20 *Industrial Law Journal*, 113, 117.

⁵⁶⁶ See G. Betlem, 'The Doctrine of Consistent Interpretation: Managing Legal Uncertainty,' (2002) 22 *Oxford Journal of Legal Studies* 397.

interpreted in accordance with all EU law, by all national authorities.⁵⁶⁷ In the case of *Centrosteel*,⁵⁶⁸ it was stated that with regard to an EU Directive: When applying national law, whether adopted before or after the Directive, the national court that has to interpret that law must do so, as far as possible, in the light of the wording and the purpose of the Directive so as to achieve the result it has in view. The CJEU case law has continually relied upon the requirement of Member States to ensure the fulfilment of EU obligations, pursuant to the principle of sincere cooperation, which is contained in Article 4(3) of the TEU.⁵⁶⁹ In the case of *Von Colson*,⁵⁷⁰ the judgment which established the indirect effect of a Directive, the CJEU considered what EU Directives required Member States achieve, which was the purpose that the Directive was intending to achieve,⁵⁷¹ as well as considering the general duty of Member States to take all appropriate measures whether general or particular, to ensure the fulfilment of EU obligations. An example of where indirect effect was invoked by the court, was in the case of *Pfeiffer*⁵⁷² where the CJEU held that German legislation which authorised weekly working hours that exceeded 48 hours, was incompatible with the requirements of Directive 93/104, which related to the maximum weekly working hours. It held that this provision was 'unconditional and sufficiently precise and able in principle, to produce a direct effect. However, the proceedings concerned private individuals and the court emphasised the principle that there was a prohibition on the direct effect of Directives in horizontal cases.⁵⁷³ The national courts therefore are required via indirect effect, to interpret their national law to the greatest extent possible, in conformity with EU law.⁵⁷⁴

Following Brexit and the implementation of the EUWA 2018, any national law enacted in order to implement EU law, prior to completion day, such as the Intellectual Property (Enforcement etc) Regulations 2006, passed to give effect to the Enforcement Directive 2004/48/EC, will fall under Section 2 of the EUWA 2018, being 'EU-derived

⁵⁶⁷ M. Bobek, 'The Effects of EU Law in the National Legal Systems,' in C. Barnard and S. Peers (ed), *European Union Law* (3rd ed. OUP 2020) 154, 169.

⁵⁶⁸ Case C-456/98 *Centrosteel* EU:C:2000:402 at [16].

⁵⁶⁹ *Marleasing* (n 332)[8].

⁵⁷⁰ *Von Colson* (n 564).

⁵⁷¹ *Von Colson* (n 564) [26].

⁵⁷² Case C-397/01 to C-403/01 *Pfeiffer v Deutsches Rotes Kreuz* (C:2004:584), at [100]-[106].

⁵⁷³ *Pfeiffer* (n 572)[109].

⁵⁷⁴ See *Poplawski* (n 554)[109].

domestic legislation,’ which will be EU retained law and construed in accordance with the relevant EU law under Sections 3 and 4 of the Act.’⁵⁷⁵ Post completion day, although the supremacy of EU law does not apply to any enactment passed on or after completion day, section 5(2) of the EUWA 2018 provides that it applies to law made prior to completion day, in respect of any interpretation, disapplication or quashing of any pre completion enactment or rule of law passed prior to that day.

Having considered direct and indirect effect, it is necessary to consider further, the interpretation of retained EU law in the aftermath of Brexit. The TCA 2020 has been incorporated into domestic law by virtue of the European Union (Future relationship) Act 2020 (EUFRA 2020), which has a general implementation clause at Section 29.⁵⁷⁶ The Court of Appeal has recently taken the first step in the clarification of how EU retained law should be interpreted and applied in conjunction with the TCA 2020 and the EUFRA 2020. The judgment of *Lipton and Anr. V BA City Flyer Ltd*⁵⁷⁷ followed a claim by a passenger against an airline in respect of a cancelled flight, pursuant to EU Regulation 261/2004.⁵⁷⁸ The flight had been cancelled due to the pilot becoming ill whilst off duty and the airline relied upon ‘*extraordinary circumstances*’ which it asserted arose as the pilot did not become unwell in the course of his duty. When the circumstances for the claim arose and when the claim was first before the court, the UK was still a Member State of the EU. On appeal, the UK was in the transitional period, but at the date of the Court of Appeal hearing, the UK had left the EU and the relevant Regulation applied under the EUWA 2018, rather than the ECA 1972. The Regulation had the status of retained EU law, recast as domestic law, pursuant to Section 5(2) of the EUWA 2018 and retained primacy over any conflicting domestic law passed before the end of the implementation period. The Court of Appeal held that the pilot’s illness was not an extraordinary event, but commonplace, as the availability

⁵⁷⁵ An enactment of law that does not fall under Section 2 of the EUWA 2018, will be construed in light of relevant retained EU law under Sections 2, 3 and 4 of the Act.

⁵⁷⁶ TCA 2020, Section 29 provides that ‘existing domestic law has effect on and after the relevant day with such modifications as are required for the purposes of implementing in that law the Trade and Co-operation Agreement or the Security of Classified Information Agreement so far as such implementation is necessary for the purposes of complying with the international obligations of the United Kingdom under the agreement.’

⁵⁷⁷ *Lipton and Anr. V BA City Flyer Ltd*, [2021] EWCA Civ 454.

⁵⁷⁸ Regulation (EC) No. 261/2004 of the European Parliament and of the Council of 11 February 2004, establishing common rules on compensation and assistance to passengers in the event of denied boarding and of cancellation or delay of flights.

of the pilot, a captain, was part of the operations of the company which should have contingency plans.⁵⁷⁹

The important part of the judgment was made by Lord Justice Green, who set out the basis for the interpretation of retained EU law. The Regulations in question had been subject to amendment by subsequent Regulations in 2019⁵⁸⁰ and these were treated as the applicable regime by the court. Once the appropriate EU legislation and any domestic amendments to it had been identified, the provision should be given a purposive construction which takes account of any of its recitals and any international law that has been incorporated into it by reference. The court should then refer to the CJEU case law decided prior to the end of the transition period in order to determine the meaning and scope of the legal provision, as well as any general principles of EU law identified in the EU case law.⁵⁸¹ The appellate courts have the power to depart from retained EU case law and general principles if they consider that it is right to do so.

Green L.J. extended his analysis by reference to the TCA 2020 and the EUFRA 2020, first explaining that if there are relevant provisions of the TCA the court should ascertain whether they have been implemented into domestic legislation. If there has been implementation there is no further transposition required to achieve the intended result, but if domestic law does not already reflect the substance of the TCA provision, the domestic legislation will take effect, subject to any modifications that are required. Section 29 of the EUFRA 2020 thereby provides an ‘automatic modification’ effect via which, any otherwise unimplemented provisions of the TCA 2020 become incorporated into domestic legislation. Section 29 of the EUFRA 2020 imposes an ‘obligation of result’ on domestic courts, as Parliament has mandated a test based upon the result or effect which occurs without the need for further intervention by Parliament.⁵⁸² Section 37(1) of the EUFRA 2020 provides interpretation that Green L.J. took to include all forms of primary and subordinate

⁵⁷⁹ *Lipton* (n 577) [38]-[40].

⁵⁸⁰ Air Passenger Rights and air Travel Organisers’ Licencing (Amendment)(EU Exit) Regulations 2019.

⁵⁸¹ See *Lipton* (n 577) [83] for a summary of the basic principles of interpretation.

⁵⁸² *Lipton* (n 577) [78].

measures,⁵⁸³ with modification of such legislation, including ‘amendment, repeal or revocation.’ Section 29 is subject to limitation in that the modification applies only as far as is necessary, so that if a UK law is consistent with the TCA, it does not require modifying and it only affects modifications that are necessary for the purpose of complying with international obligations of the UK under the Agreement, which include legislative instruments beyond the TCA 2020 itself.⁵⁸⁴

Green L.J. refused to accept that section 29 of the EUFRA 2020 was a form of statutory interpretation in the same vein as indirect effect, as it did not set out a principle of purposive interpretation, but amounted to a generic mechanism to achieve full implementation. It transposed the TCA into domestic legislation, implicitly altering the UK law in the process, so that the application of Section 29 to domestic law on a particular issue, provides that what the TCA says, it means, regardless of the language used.⁵⁸⁵ In a subsequent judgment,⁵⁸⁶ Green L.J. confirmed this point, stating that Section 29 is more fundamental and amounts to a blanket, generic mechanism to achieve full implementation, without the need for any further Parliamentary or other executive intervention.’ The overriding position is now that domestic law not complying with unimplemented provisions in the TCA will need to be treated as having been modified according to its provisions. This potentially exceeds the interpretive requirement brought about by indirect effect, but falls short of imposing direct effect, which is expressly excluded by Article 5(1) of the TCA. However, they can be described as directly applicable.⁵⁸⁷

Article 265 in Title V of the TCA 2020, which applies to the provision of damages for IP enforcement reflects the terms of the Enforcement Directive 2004/48/EC, which were transposed into UK law by the Intellectual Property (Enforcement etc) Regulations 2006 and which constitute retained EU law. The IP provisions of the TCA reflect the main IP treaties such as the TRIPS Agreement, which reflect the international desire for

⁵⁸³ *Lipton* (n 577) [79], where Green L.J. set out all the types of legislation that fell to be defined as unimplemented provisions.

⁵⁸⁴ *Lipton* (n 577) [80].

⁵⁸⁵ *Lipton* (n 577) [78].

⁵⁸⁶ *Heathrow Airport Limited* [2021] EWCA Civ 783, at [227].

⁵⁸⁷ See J.A. Winter, ‘Direct Applicability and Direct Effect: Two Distinct and Different Concepts in Community Law,’ (1972) *Common Market Law Review*, 425-438.

the harmonisation of IP rights. The scope of the TCA in respect of IP, is set out in Article 220.1 and states that [Title V] shall complement and further specify the rights and obligations of each party under the TRIPS Agreement and other international treaties in the field of intellectual property. They, like the TCA, provide a minimum standard of enforcement and the parties remain free to implement more extensive provisions. Therefore, in practice, the law on IP enforcement will not change post Brexit. The text of Article 265 of the TCA 2020 and Regulation 3 of the 2006 Regulations differ in that Regulation 3(3) does not provide for the payment of pre-established damages and the intention of Parliament was not to provide a legal code that permitted punitive damages. However, as set out previously, the courts have incorporated a punitive element into awards of additional damages under section 97(2) of the CDPA 1988, which is not inconsistent with Article 265 of the TCA, under which pre-established damages are an option rather than a requirement. Regulation 3(3) of the 2006 Regulations states that Regulation 3 does not affect the operation of any enactment or rule of law relating to remedies for the infringement of IP, except to the extent that it is inconsistent with the provisions of the Regulation. The difference in wording between Article 265 and Regulation 3 is not material, given the interpretation of section 97(2) of the CDPA 1988 has been given preference by the courts, when it provides a remedy that is more favourable to the Claimant than the EU Directive, which has been transposed by Regulation 3.

3.10 *Conclusion*

The IP enforcement regime as it applies to the applicability of damages for copyright infringement has been made more complicated since Article 13 of the Enforcement Directive 2004/48/EC came into force in the UK, via Regulation 3 of the Intellectual Property (Enforcement etc) Regulations 2006. The Regulations had indirect effect under the Directive and in practice little has changed, notwithstanding the implementation of the TCA. Recent CJEU and domestic case law, has been interpreted to provide for a punitive element and therefore deterrence, in an award of damages for infringement, provided that such an award does not constitute an abuse of rights. An award of additional damages under section 97(2) of the CDPA 1988, has been

described as *sui generis* in their legal character⁵⁸⁸ and it is arguable that this recognition could provide the stepping stone for further judicial analysis of the requirements of a punitive and deterrent damages regime leading to amendment of the 1988 Act to incorporate Article 265 of the TCA and explicit punitive damages, in order to provide a successful deterrent to copyright infringement. The following chapter now considers the existing UK domestic framework of compensatory damages in detail.

⁵⁸⁸ *PPL v Ellis* (n 312).

Chapter Four

Domestic Legal Framework – Compensatory Damages

4.1 Introduction

This chapter will seek to explain why compensatory damages do not have a sufficient punitive element to successfully deter infringement. It will therefore assess the existing domestic legal framework on compensatory damages in some detail. Chapter One summarised the concept of compensatory damages, based upon the case of *General Tire v Firestone*.⁵⁸⁹ Whilst this Chapter will explore the exact basis of compensatory awards on the grounds of (i) lost sales; (ii) lost licence fees and (iii) the ‘user principle,’ It will also consider the availability of other types of compensatory damages, such as reputational damage and damages for moral prejudice under Regulation 3 of the Intellectual Property (Enforcement etc) Regulations 2006, which has been explored in Chapter Three. Consideration will be given to the concept of awards based upon an account of profit, how they are awarded for copyright infringement, the difference between an account and an award of damages and the need for an election between the two. It will also assess why an account of profit is insufficient in deterring copyright infringement.

Where an infringement of copyright occurs, section 97(1) of the CDPA 1988⁵⁹⁰ enables the court to award damages if the infringer had the *requisite knowledge* that he was infringing, which is ‘knowing or having reason to believe that copyright subsisted in the work to which the action relates.’ Under section 97(1), no damages can be awarded if the requisite knowledge is not present and the section acts as a defence on that basis. However, under section 97(2), the court has the option of taking into account all the circumstances of the case, especially the flagrancy of the infringement and any benefit

⁵⁸⁹ *General Tyre* (n 9).

⁵⁹⁰ CDPA 1988, Section 97(1) Where, in an action for infringement of copyright it is shown that at the time of the infringement, the defendant did not know and had no reason to believe, that copyright subsisted in the work to which the action relates, the plaintiff is not entitled to damages against him, but without prejudice to any other remedy; (2) The court may in an action for infringement of copyright, having regard to all the circumstances and in particular, to (a) the flagrancy of the infringement, and (b) any benefit accruing to the defendant by reason of the infringement, award such additional damages as the justice of the case may require.

accruing to the defendant from his infringing acts and may award additional damages. These additional damages will be considered subsequently in this chapter. As discussed in Chapter Three, prior to Brexit, the UK courts had to award damages on the basis of Article 13 of the Enforcement Directive 2004/48/EC,⁵⁹¹ which was been transposed into UK law by the IP (Enforcement etc) Regulations 2006, which remain applicable law. The terms of the original Article 13 are now contained in Article 265 of the TCA 2020. The starting point for an award of damages, where the requisite knowledge is present, is to compensate the right holder, not to punish or deter the infringer.

4.2 *The legal basis of compensatory damages*

Compensatory damages are intended to put the right holder back in the position as much as possible, that they would have been in had the infringement not occurred and they do not have a punitive element. Although the modern leading case on compensatory damages for IP infringement is the patent case, *General Tyre v Firestone*.⁵⁹² This case is an authoritative declaration of the approach that already existed and it has been applied in numerous cases subsequently. However, the basic rule of damages was expressed by Lord Blackburn in *Livingstone v Rawyards Coal Company*.⁵⁹³ He stated that 'Where any injury is to be compensated by damages, in settling the sum of money to be given for reparation of damages you should as nearly as possible get at that sum of money which will put the party who has been injured, or

⁵⁹¹ The Enforcement Directive 2004/48/EC, art 13 provides that 13.1 Member States shall ensure that the competent judicial authorities, on an application of the injured party, order the infringer who knowingly, or with reasonable grounds to know, engaged in an infringing activity, to pay the right holder damages appropriate to the actual prejudice suffered by him/her as a result of the infringement. When the judicial authorities set the damages: (a) They shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits, which the injured party has suffered, any unfair profits made by the infringer and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right holder by the infringement: or, (b) As an alternative to (a), they may, in appropriate cases, set the damages as a lump sum on the basis of elements, such as at least the amount of royalties or fees which would have been due if the infringer had requested authorisation to use the intellectual property right in question. 13.2 Where an infringer did not knowingly, or with reasonable grounds to know engage in an infringing activity, Member States may lay down that the judicial authorities may order the recovery of profits or the payment of damages, which may be pre-established. Recital 26 of the Directive states that the objective of the Directive is to provide compensatory not punitive damages.

⁵⁹² *General Tyre* (n 9).

⁵⁹³ *Livingstone v Rawyards Coal Company* [1879-80] LR 5 App. Cas. 25.

who has suffered, in the same position as he would have been in, if he had not sustained the wrong for which he is now getting his compensation or reparation.’ Damages are not intended to compensate a right holder for his troubles, nor have they been intended to punish the infringer. This differs from damages awarded by way of an account of profits, in which the infringer is treated as if they were an agent of the right holder and therefore any profit that they have made is ordered to be paid to the right holder. The right holder has the option of an election between damages and an account of profits, but is not entitled to both. A further summary of the manner in which damages are assessed, can be found in the cases below,⁵⁹⁴ which set out the measure of damages assessed on the basis that the defendant has invaded the claimant’s property. Accordingly, the measure of damages for infringement of these rights depends on whether the owner of the rights exploits his property then he will be compensated for any loss sustained by this business, subject to the normal rules of causation and remoteness. If the owner exploits his property by licensing it, then prima facie the owner has merely lost an opportunity to grant a licence and the damages will be assessed at his normal royalty rate, although an increase may be awarded. However, If the owner does not exploit his property, a reasonable royalty will be awarded for the use made of the property, based on an assessment of a hypothetical transaction between a willing licensor and a willing licensee. If the claimant makes and sells copies it is necessary, to put him in the position he would have been in if there had been no infringement, compensating him for his inability to sell his products, or as many products as he would have done but for the breach; the loss sustained. If the claimant merely licenses his rights, he is entitled to be put in the position he would have been in if a licence had been requested of him and he can be expected to be compensated accordingly. It is only where he does not exploit his rights commercially and where, therefore, it would not be possible to say what sum the claimant would have requested from the defendant that the court is thrown back on assessing the damages on the basis of a hypothetical transaction between a willing licensor and a willing licensee. This is likely to be so even if the claimant says that, if asked, he would not have been willing to enter into the transaction hypothesised; the ‘notional licence

⁵⁹⁴ See *Gerber* (n 56); *General Tyre* (n 50); *Nottinghamshire Healthcare Trust* (n 493); *Blayney* (n 72).

approach.⁵⁹⁵ There is no apparent deterrent effect in awarding damages on this basis, as the infringer is only required to pay what he would have done, had he availed himself of such a licence.

As Chapter Three has discussed, English law principles have been consistent with Article 13 of the Enforcement Directive 2004/48/EC.⁵⁹⁶ In *General Tyre v Firestone*,⁵⁹⁷ Lord Wilberforce identified three alternate approaches for calculating damages for IP infringement and this patent case provided the modern basis for assessing damages for copyright infringement. These alternatives can be summarised as (i) Loss of profits to the right holder resulting from the loss of sales by reason of competition from sales of infringing products; (ii) Loss of licence royalties where the right holder exploits the patent by granting licences and there is an established royalty rate and (iii) The ‘user principle’ where damages are equivalent to the royalties that would have been paid by the infringer, had the right holder and the infringer agreed a licence as willing licensee. Lord Wilberforce also stated that the ‘user principle’ is to be used where the first two options are not available.⁵⁹⁸ Chapter One considered the basis of the principle of compensation. The assessment of damages in IP cases is notoriously difficult. As Jacob J noted in *Gerber Garment Technology Inc v Electra Systems Ltd*,⁵⁹⁹ ‘Quantification of damage in a case such as the present (a patent infringement case) is a much harder, and less certain, task than I had hitherto thought. Although I have had to reach an answer I do not pretend it is an accurate measure of the damage, of what would have been. It is just the best assessment that I can make!’ This chapter will look at the three alternatives set out in *General Tyre v Firestone*, in more detail and consider recent case law that has applied them. The claimant has the burden of proving his loss when seeking an award of damages⁶⁰⁰ and the court has to work out what would have happened had there been no infringement and then reflect that in the amount of damages awarded. It is necessarily imprecise, as the position of the parties as to what would have happened had the event in question not occurred, varies considerably,

⁵⁹⁵ *Experience Hendrix LLC (1) The Last Experience Inc (2) v Times Newspapers Ltd*, [2010] EWHC 1986 (Ch) 134 (Sir William Blackburne).

⁵⁹⁶ *Enforcement Directive* 2004/48/EC, art. 13.

⁵⁹⁷ *General Tyre* (n 9) 824-827.

⁵⁹⁸ *General Tyre* (n 9) 826.

⁵⁹⁹ *Gerber* (n 56) 396 (Jacob J).

⁶⁰⁰ *Gerber* (n 56) 396 (Jacob J).

often, because in the real world commercial decisions are affected by a multitude of factors, such as the available market share, the quality of the goods in question, the reputation of the right holder and his commercial acumen. Such assessments are costly and of limited value as a deterrent.

4.3 *Loss of profits and account of profits*

An account of, or loss of profits, could be arguably be a deterrent, as it prevents the unjust enrichment of the infringer. An account of profits, or accounting for profits, is a type of equitable remedy, most commonly used in cases where there has been a breach of fiduciary duty in order to prevent unjust enrichment. Historically, an account of profits was not an equitable remedy, but an action at common law. It is technically an instrument of law, although it arose at a time before the distinction between law and equity was marked.⁶⁰¹ It is an alternative remedy to damages and the claimant must elect between an award of damages and an account of profits. The purpose of an account of profits is not to punish the defendant, but rather, to serve justice by depriving the defendant of the profits made by him and give them to the claimant⁶⁰². It differs from a calculation of compensatory damages which quantifies the loss suffered by the claimant, which is caused by the defendant's wrongful conduct or actions. Two cases that developed the remedy of an account of profits are *Potton v York Close*⁶⁰³ and *Hoeschst Celanese International Corp v BP Chemicals Ltd*⁶⁰⁴ both of which predated the Enforcement Directive 2004/48/EC. The basic principles of an account of profits could be summarised as an intention to deprive the defendants of the profits made by their wrongful acts, committed in breach of the claimant's rights and to transfer those profits to the claimant. The defendant is to be treated as having conducted business on behalf of the claimant and therefore the maximum recoverable amount is the total profit made through the infringing activity. Following general accounting principles, the court should seek to identify the specific profit attributable to the infringing acts, with it being established that an account is confined to profits

⁶⁰¹ *National Trust Co. v H & R Block Canada Inc.* 2003 SCC 66, [2003] 3 SCR 160 (14 November 2003).

⁶⁰² *Colburn v Simms* (1843) 2 Hare 543, 560 (67 ER 224, 231).

⁶⁰³ *Potton v Yorkclose* [1990] FSR 11.

⁶⁰⁴ *Hoeschst Celanese International Corp v BP Chemicals Ltd* [1999] RPC 203.

actually made and addressed to identifying profits caused by the infringement. The fact that the profits could have been made in a non-infringing way is irrelevant and the defendant must take the claimant as he finds him. Overheads, including tax, should be dealt with accordingly so as to arrive as closely as possible to the true profit, but such an accounting exercise can prove costly and time consuming.

In *Attorney General v Blake*⁶⁰⁵ the House of Lords ruled that an account of profits might be awarded as a remedy for a breach of contract in 'exceptional cases,' and it was accepted more recently, that such awards might, in principle, equally be made in response to torts.⁶⁰⁶ However, Lord Wilberforce had also included loss of profits as a method of calculating damages in IP cases in 1975.⁶⁰⁷ An account of profits, or gain based relief⁶⁰⁸ can be measured in two ways.⁶⁰⁹ Either the court can order the defendant to pay what would amount to a reasonable fee for the relaxation of the right breached,⁶¹⁰ or the court can resort to a subjective measure of relief, ordering the defendant to account for profits actually acquired as a result of the breach in question. Rotherham believes that little progress has been made in identifying the criteria that will determine when defendants are liable for an account of profits⁶¹¹ and he notes that the principle justification offered for stripping defendants of profits is deterrence of wrongdoing.⁶¹² He considers that there is less support for the provision of accounts of profits than is often assumed and that the rationale does not justify stripping defendants of consequential profits for every 'cynical' wrong as commonly suggested⁶¹³ Rotherham suggests that optimal deterrence for IP infringements, as well as for breaches of trust and confidence, can be achieved if, in addition to the state of mind of the defendant, weight should be given to the following factors: (i) the

⁶⁰⁵ *Blake* (n 70) 285, per Lord Nicholls.

⁶⁰⁶ *Forsyth-Grant v Allen* [2008] EWCA Civ 505; *Devenish Nutrition Ltd v Sanofi-Aventis SA* [2008] EWCA Civ 1086, [2009] Ch 290.

⁶⁰⁷ *General Tyre* (n 9).

⁶⁰⁸ See Craig Rotherham, *Deterrence as a Justification for Awarding Accounts of Profits*, *Oxford Journal of Legal Studies*, (2012).

⁶⁰⁹ Daniel Friedmann, 'Restitution for Wrongs: The Measure of Recovery' (2001) 79 Texas L Rev 1879.

⁶¹⁰ *WWF v WWF* [2007] EWCA Civ 286, per Chadwick LJ and Craig Rotherham, 'Wrotham Park Damages and Accounts of Profits: Compensation or Restitution?' [2008] LMCLQ 25.

⁶¹¹ David Campbell and Phillip Wylie, 'Ain't No telling (Which Circumstances are Exceptional)' (2003) 62 CLJ 605.

⁶¹² Craig Rotherham, *Deterrence as a Justification* (n 608) 2.

⁶¹³ See James Edelman, *Gain Based Damages: Contract, Tort, Equity and Intellectual Property* (Hart 2002); Peter Birks, *Civil Wrongs: A New World* (Butterworths 1992) 55.

importance of the interest infringed; (ii) the vulnerability of the interest; (iii) the gravity of the breach; (iv) the likelihood that profit-stripping would deter the conduct in question and (v) the costs, if any, that are likely to result.⁶¹⁴ The concept of inadequacy of damages has been used as a justification for awarding specific relief or disgorgement damages. However, Odudu and Virgo have argued that ‘inadequacy of damages’ is a notoriously slippery concept when awarding specific relief and it should not then be imported and extended into the law of disgorgement damages. There have been calls for it to be scrapped and replaced with a broader concept of what is ‘just in the circumstances.’⁶¹⁵ Austin-Baker⁶¹⁶ argues that much of the confusion about the difficulty of calculating damages rendering compensatory damages inadequate can be resolved if one distinguishes between *extrinsic* or *forensic* difficulties in calculating damages and *intrinsic difficulties*. His argument is that ordinarily, extrinsic difficulties in calculating damages will not give rise to inadequacy of damages.⁶¹⁷ Where it is difficult, but not impossible to calculate damages, merely costly and time consuming, compensatory damages were adequate. In contrast, where it is impossible to calculate damages because a calculation of loss is pure speculation, compensation damages are inadequate. This argument does not necessarily address the issue of loss of profits as a deterrent to infringement, as it is acknowledged that assessing damages in IP cases, is notoriously difficult.⁶¹⁸ It also results in the infringer merely repaying to the right holder, those sums which he has acquired as a result of the infringement.

While *Attorney General v Blake*⁶¹⁹ was an unusual case, in that it concerned a claim by the Crown for profit stripping relief against a former spy, who had published his memoirs in breach of a contractual undertaking not to disclose official secrets, the House of Lords determined that an account of profits can be awarded in ‘exceptional circumstances’, and it was unclear what those circumstances may be. Lord Nicholls observed “Normally the remedies of damages, specific performance and injunction, coupled with the characterisation of some contractual obligations as fiduciary, will

⁶¹⁴ Craig Rotherham, *Deterrence as a Justification* (n 608) 2.

⁶¹⁵ O Odudu and G Virgo, ‘Inadequacy of Compensatory Damages’ [2009] *Restitution Law Review* 112.

⁶¹⁶ R. Austin-Baker, ‘Difficulties with Damages as a Ground for Specific Performance,’ (1999) 10 *King’s College Law Journal* 1.

⁶¹⁷ See *Societe des Industries Metallurgiques SA v The Bronx Engineering Co Ltd*. [1975] 1 *Lloyd’s Rep.* 465, as an example he gave of an extrinsic difficulty in calculating damages.

⁶¹⁸ *Gerber* (n 56) (Jacob J).

⁶¹⁹ *Blake* (n 70) 285.

provide an adequate response to a breach of contract. It will be only in exceptional cases, where other remedies are inadequate, that any question of accounting for profits will arise. No fixed rules can be prescribed...A useful general guide, although not exhaustive, is whether the plaintiff had a legitimate interest in preventing the defendant's profit making activity and, hence, in depriving him of his profit.'⁶²⁰

Following *Attorney General v Blake*, other cases have identified the objective of deterrence as the best justification for an account of profits.⁶²¹ Richard Craswell⁶²² for example, notes that different supra-compensatory monetary awards could serve to deter wrongs, with statutory multiple damages awards being justified, in large part, for their deterrent effect. Senior members of the judiciary have noted in well known cases, that punitive damages can be justified as they have the capacity to discourage wrong doing.⁶²³ Rotherham identifies⁶²⁴ that whilst punitive damages could provide a more finely tuned deterrent, as the quantum of relief can be varied in response to the probability that the wrong of the type in question would be detected and a claim successfully pursued, such awards are viewed as highly exceptional and even then are contentious, whilst accounts of profits, in contrast, attract less controversy. In part, it would seem that this is because such profits are viewed as a windfall to which the defendant has no compelling claim and because the focus on the defendant's gain provides a principled limitation on the quantum of relief that critics complain is absent in the case of punitive damages.⁶²⁵

An account of profits is not a straightforward method of assessing the claimant's loss, whether it is for punitive purposes or otherwise. As Rotherham analyses, the assessment of the level of deterrence required in given circumstances, or in varying cases, would require costly inquiries⁶²⁶ and that what is really needed and indeed all that is really possible, are rules that are based on relatively broad and clear

⁶²⁰ *Blake* (n 70) 285, per Lord Nicholls.

⁶²¹ *Boardman v Phipps* [1965] Ch 992, 1031 (CA) (Pearson LJ); *Consul Developments v DPC* (1975) 132 CLR 373, 397 (Gibbs J); *Monsanto Chemical Co v Perfect Fit Products Mfg Co* 349 F 2d 389 (2d Cir 1965); *WE Bassett Co v Revlon Inc* 435 F 2d 656 (2d Cir 1970).

⁶²² Richard Craswell, 'Deterrence and Damages: The Multiplier Principle and its Alternatives,' (1999) 97 Mich L. Rev 2185.

⁶²³ *Rookes v Barnard* (n 423) 1227; *Broom v Cassell & Co Ltd* [1972] AC 1027, 1130 (Lord Diplock).

⁶²⁴ Rotherham, *Deterrence as a Justification* (n 608) 5.

⁶²⁵ Cass Sunstein, Daniel Kahneman and David Schkade, 'Assessing Punitive Damages (With Notes on Cognition and Valuation in the Law)' (1998) 107 Yale LJ 2071.

⁶²⁶ Rotherham, *Deterrence as a Justification* (n 608) 5, 6.

distinctions that can be easily administered and produce unambiguous signals to influence future behaviour. However, consequential profits are generally more expensive to determine than alternate measure of relief. In *Siddell v Vickers*⁶²⁷ Lindley LJ remarked that accounts of profits ‘very seldom result in anything satisfactory to anybody. The litigation is enormous, the expense is great and the time consumed is out of all proportion to the advantage ultimately attained.’ It is worth noting that this comment in 1892 may contrast with the way litigation is conducted today in the Intellectual Property Enterprise Court (IPEC), where damages and costs are capped and litigation is time managed by a specialist judiciary.

When considering whether an account of profits serves as a useful deterrent to future infringement, it must be noted that profits can be awarded even where the infringer lacks the requisite knowledge.⁶²⁸ Polinsky and Shavell believe that it is difficult to understand why an account of profits should not potentially play a role in deterring conduct that is merely careless.⁶²⁹ That would have the benefit of specific deterrence, at least deterring the infringer from future infringements. It also has the benefit of not requiring the court to determine the presence of the requisite knowledge, imposing almost strict liability. As judges and jurists have noted, the quality of a wrongdoer’s conduct can be placed on a continuum, with egregious wrongdoing and complete innocence lying at either end and most cases falling somewhere in between, in an area where moral distinctions are difficult to calibrate. Clearly, an important consideration in judging the quality of the defendant’s conduct will be whether a right was knowingly transgressed. Ultimately, a judgment as to the quality of a defendants’ conduct is liable to be determined not simply by the degree of knowledge with which they acted, as the evaluation will also depend on other considerations relating to the type of interest infringed and the manner of the breach.⁶³⁰ Such an assessment is more suited to a punitive damages regime than an account of profits, as it could be argued that such profits are something that the defendant merely gives back to the claimant, as they are not entitled to it in the first place, whereas punitive damages are sums that the

⁶²⁷ *Siddell v Vickers* [1892] 9 RPC 152, 163 (Lindley LJ).

⁶²⁸ The Enforcement Directive 2004/48/EC, art 13(2); The Intellectual Property (Enforcement etc) Regulations 2006, Regulation 3, implementing art 13 into UK law.

⁶²⁹ A. Mitchell Polinsky and Steven Shavell, ‘Punitive Damages: An Economic Analysis’ (1998) 111 Harv L Rev 869, 910.

⁶³⁰ Rotherham, *Deterrence as a Justification* (n 608) 8.

defendant has to find himself, over and above the actual perceived gains that he has made from his infringing activities.

The type of interest that the defendant has breached, it could be argued, has more to do with the proximity of the defendant to the claimant's interest, rather than the interest itself. The gravity of the breach is also an important factor under Rotherham's analysis.⁶³¹ He argues that different breaches of the same right will not necessarily demand a uniform response. Thus, trivial and transitory breaches are less likely to lead to an account of profits than are interferences that significantly impair a claimant's interests. He uses as an analogy, the context of trespass, a tort that is actionable *per se* and therefore subject to trivial interferences, with the courts not being inclined to require defendants to account for actual profits for transient and partial use, in contrast to actual dispossession.⁶³²

The theories of deterrence have been considered in Chapter One and the probability of detection and enforcement have been well considered. As Bentham⁶³³ and Becker⁶³⁴ argue, where there is a risk of under-enforcement of rights, the sanction for a transgression should be increased to ensure adequate deterrence and empirical evidence from the criminal law suggests that the risk of an activity incurring a sanction has a stronger deterrent effect than does the severity of that sanction.⁶³⁵ The infringement of IP rights can be difficult to detect and enforcement is generally low.⁶³⁶ The rise of the internet has allowed copyright piracy to flourish and it is not always easy to establish with certainty if infringement has occurred, in the way that is possible with tangible assets. An account of profits may be justified, as it removes the ability of the infringer to benefit from his gain, even where his infringing act was unintentional. Even so, there is a real risk that IP right holders will be under compensated, given the

⁶³¹ Rotherham, *Deterrence as a Justification* (n 608) 10, 11.

⁶³² Rotherham, *Deterrence as a Justification* (n 608) 11.

⁶³³ Jeremy Bentham, 'Principles of Penal law', in *The Works of Jeremy Bentham* (first published 1838, Russell and Russell 1962) vol 1, 365, 402.

⁶³⁴ Becker, *Crimes and Punishment* (n 123) 169.

⁶³⁵ James Wilson and Richard Herrnstein, *Crime and Human Nature* (Simon & Schuster 1985) 397-401; Raymond Paternoster, 'The Deterrent Effect of Perceived Certainty and Severity of Punishment: A Review of the Evidence and Issues' (1987) 4 Justice Q 173.

⁶³⁶ Roger Blair and Thomas Cotter, *Intellectual Property: Economic and Legal Dimensions of Rights and Remedies* (CUP 2005) 48, on under-enforcement of copyright.

burden on the claimant to prove his losses and the court finds itself unable to quantify that loss. An account of profits has the advantage of both appearing less arbitrary than an award of damages in such circumstances and of allowing the court to avoid the impression that it is putting a value on goods that may be viewed as being incommensurate with money. That is another consideration that would support the award of accounts of profits in the context of wrongs concerned with the claimant's personal integrity or dignity, such as defamation or breach of privacy.⁶³⁷

It can no longer be argued that an account of profits is 'exceptional' in the context of *Attorney General v Blake*⁶³⁸ given its explicit inclusion in Article 13(2) of the Enforcement Directive 2004/48/EC. Although the object of that Directive is to compensate not punish, the case law as discussed in Chapter Three, has moved towards a more punitive determination. Rotherham concludes his arguments by stating that if an account of profits is to be made more widely available than this – and there is every chance that it eventually will be – the objectives driving such an expansion are likely to have less to do with deterrence and more with a desire to punish and to signify disapproval.⁶³⁹ The question remains, how useful such a remedy will be, given the litigation costs of assessing a right holder's profits. Whilst such a remedy remains available, deterrence may be more efficient in the application of additional or pre-established damages.

4.4 *Assessing account of profits*

It is necessary to consider how the courts assess account of profits, especially since the coming into force of the Enforcement Directive 2004/48/EC. In IP cases, inquiries into damages are rare as the parties usually proceed to a negotiated settlement after a finding of liability and this also mitigates against assessing the output from the courts. An account of profits is now subject to the Enforcement Directive, although the implications arising out of its application and the changes that it has made to UK law

⁶³⁷ Norman Witzleb, 'Justifying Gain-Based Remedies for Invasions of Privacy' (2009) 29 O.J.L.S 325.

⁶³⁸ *Blake* (n 70) 285.

⁶³⁹ Rotherham, *Deterrence as a Justification* (n 608) 26.

remain unclear.⁶⁴⁰ The UK courts first had to consider the effect of the Directive in *Hollister v Medik Ostomy*.⁶⁴¹ This was a decision of Birss HHJ, which came before Kitchin LJ in the Court of Appeal, a case concerning damages for trade mark infringement based on account of profits. The defendant admitted trade mark infringement and the court ordered them to disclose their infringing activities and the case was listed for an inquiry as to damages or an account of profits and the claimant elected for an account of profits. Birss HHJ found that in carrying out the account and determining the sum the infringer must pay, the court was required by Community law to consider the extent of the damage to the trade mark owner caused by the infringement and the principle of proportionality. He then adopted a three step approach, which was; (i) to assess the account on the normal basis under English law; (ii) consider the extent of damage caused to the trade mark proprietor by the infringement and the issue of proportionality, in all the circumstances of the case; and (iii) decide what final sum should be awarded, having regard to both the sum assessed on the account at step (i) and the factors considered at step (ii).⁶⁴² This assessment resulted in the claimants being awarded half of the defendant's net profits, assessed on the normal basis under English law.⁶⁴³ The judge determined that the defendant was entitled to deduct not only the direct costs associated with the importation and sale of the infringing products, but also a proportion of its general overhead costs. He stated that it was irrelevant, whether absent the infringement, the costs would have been incurred anyway.⁶⁴⁴ He also resolved a dispute between the parties as to the number of infringing products sold by the defendant.

Kitchin LJ acknowledged in his leading judgment that the scope of Article 13 of the Enforcement Directive was not entirely clear, but that the Community Legislature may well have used the term 'damages' in a broad sense to include both reimbursement of the right holder's lost profits and the return of profits made by the infringer. Member States were under an obligation to provide the right holder with a remedy against a knowing infringer that is appropriate to the prejudice suffered by the right holder and

⁶⁴⁰ See Phillip Johnson, *Damages in European Law* (n 446)296-306.

⁶⁴¹ *Hollister* (n 436).

⁶⁴² *Hollister* (n 436) [7].

⁶⁴³ *Hollister* (n 436) [8].

⁶⁴⁴ *Hollister* (n 436) [9].

takes account of all the relevant circumstances, such as the profits the right holder has lost and the profits that the infringer has made.⁶⁴⁵ The issues of proportionality and deterrence were considered with reference to Case C-343/09 *Afton Chemical Ltd v Secretary of State For Transport*,⁶⁴⁶ where the Court of justice had affirmed that the principle of proportionality requires that the measures adopted do not exceed the limits of what is necessary or appropriate in order to attain the objectives legitimately pursued by the legislation in question; where there is a choice between several appropriate measures recourse must be had to the least onerous and the disadvantages caused must not be disproportionate to the aims pursued. Nevertheless, a wide margin comes into play and the adoption of a particular measure will only breach the proportionality principle if it is clearly inappropriate or out of proportion having regard to the relevant objectives.⁶⁴⁷ Those principles were earlier stated by the Court of Justice in *Boehringer II*,⁶⁴⁸ where the court explained that where Community Law does not lay down any specific sanction for infringement, it is incumbent on national authorities to adopt measures which must be proportionate, but also sufficiently effective and a sufficient deterrent to ensure that the Directive and the Regulation is fully effective.⁶⁴⁹ It is incumbent on national courts to adopt appropriate measures to deal with infringements and these must be proportionate and satisfy the principles of equivalence and effectiveness.⁶⁵⁰

Hollister was a trade mark infringement case, but its decision relating to an account of profits have general application. The court is not entitled to assess the damage caused to the claimant by the infringement and a general inquiry into the proportionality of the remedy by reference to the defendants' state of mind and an assessment of the damage caused to the claimant form no part of an account of the profits made by an infringer.⁶⁵¹ It was also impermissible to weigh up the varying factors set out by Birss

⁶⁴⁵ *Hollister* (n 436) [60].

⁶⁴⁶ Case C-343/09 *Afton Chemical Ltd v Secretary of State For Transport* [2011] 1 CMLR 16.

⁶⁴⁷ *Hollister* (n 436) [65].

⁶⁴⁸ Case C-348/04 *Boehringer Ingelheim KG v Swingward Ltd* [2007] ETMR 71 (*Boehringer II*) at [58] [59].

⁶⁴⁹ *Hollister* (n 436) [66].

⁶⁵⁰ *Hollister* (n 436) [68].

⁶⁵¹ *Hollister* (n 436) [71].

HHJ.⁶⁵² The claimants were entitled to a conventional account of the defendant's profits in respect of its infringing activities.⁶⁵³

An account of profits is assessed on the basis of the infringer's net profits, with him being entitled to deduct any direct costs associated with the infringement, as well as any overheads to the extent that they have been increased by the infringement, such overheads that would not have been incurred but for the infringement. The court considered the reasoning of Laddie J in *Celanese International Corp. v BP Chemicals Ltd*⁶⁵⁴ and in contrast, a decision of the High Court in Australia in *Dart Industries Inc. v Decor Corp. Pty. Ltd and anor.*⁶⁵⁵ *Celanese* concerned an account of profits made by the defendant company by making acetic acid from two plants and the principles adopted by the court in determining the relevant costs, were; (i) all costs shown to have nothing to do with the manufacture and sale of acetic acid should be ignored; (ii) all costs relating to only to such manufacture and sale should be allowed in their entirety and; (iii) all other costs relating to the manufacture and sale of the acetic acid and other products as well, should be divided between the former and the latter and the part relating to the acetic acid should be allowed.⁶⁵⁶ The issue with this formulation was that there was no assessment of how to calculate the costs relating to the manufacture and sale of the acetic acid. In *Dart Industries*⁶⁵⁷ the court provided an alternative analysis of how general costs are to be allowed in accounting for profits, explaining that as the purpose of an account is to strip the infringer of the profits he has made, not to punish him and the relevant exercise that must be undertaken, is to isolate those costs which are attributable to the obtaining of the relevant profit from those which are not.⁶⁵⁸ The so called 'opportunity cost' was identified, as there was no evidence that the defendant had unused or surplus capacity, but rather that the infringing goods had been sold as an integral part of a consistent product range, leaving it to be inferred that, had they not been engaged in the manufacture and sale of infringing products, their capacity would have been taken up in the manufacture

⁶⁵² *Hollister* (n 436) [7].

⁶⁵³ *Hollister* (n 436)[73].

⁶⁵⁴ *Celanese* (n 604).

⁶⁵⁵ *Dart Industries Inc. v Décor Corp. Pty. Ltd and anor* [1994] FSR 567.

⁶⁵⁶ *Celanese* (n 604) [86].

⁶⁵⁷ Discussed in *Hollister* (n 436) [80]-[84].

⁶⁵⁸ *Hollister* (n 436) [80].

and sale of other products. Therefore, the costs of manufacturing the infringing products might have included the cost of foregoing the profit on the manufacture and sale of some other products.⁶⁵⁹ The equitable principle of an account of profits is to prevent the unjust enrichment of the defendant, who should not be in a better position than they would have been if there had been no infringement. If the defendant has foregone the opportunity to manufacture and sell alternative products it will ordinarily be appropriate to attribute to the infringing product, a proportion of those general overheads which would have sustained the opportunity, but if no opportunity was foregone and the overheads involved were costs which would have been incurred in any event, then it would not be appropriate to attribute the overheads to the infringing products.⁶⁶⁰ The burden is on the defendant to provide a reasonably acceptable basis for allocation, as the facts were likely to be within their knowledge and they had to establish that the overheads in any particular category were properly attributable to the manufacture or sale of infringing products.⁶⁶¹ The court in *Hollister* accepted this reasoning and noted that it may be relevant to consider whether the defendant has surplus capacity, whether the infringing activity was an additional line to an established business, whether the overheads have been increased as a result of the infringing activities or whether they would have been lower in the absence of that activity.⁶⁶² The overall exercise of assessing the defendant's net profits is complicated and falls short of a punitive regime that has the capacity to successfully deter infringing activities, as the defendant is able to subtract certain overheads which reduce the punitive element of the award against him.

Phillip Johnson has considered the case of *Hollister* in the context of the Enforcement Directive 2004/48/EC and an account of profits⁶⁶³ and noted that the claimant in that case did not submit that it was entitled to both damages and an account of profits, but in the Court of Appeal, reference was made to these as alternatives⁶⁶⁴ and the need to elect between the two remedies.⁶⁶⁵ He refers to the literature which raises the issue of

⁶⁵⁹ *Hollister* (n 436) [81].

⁶⁶⁰ *Hollister* (n 436) [82].

⁶⁶¹ *Hollister* (n 436) [82].

⁶⁶² *Hollister* (n 436) [85].

⁶⁶³ Phillip Johnson, Damages in European Law (n 446) 304.

⁶⁶⁴ *Hollister* (n 436) [54] [55]

⁶⁶⁵ *Hollister* (n 436)[56].

the compatibility of an election with Article 13 of the Directive⁶⁶⁶ and he notes that the difficulty arises because of the ambiguous wording of Article 13 and the slightly contrary wording of the Recital. Article 13 refers to ‘all appropriate aspects...such as the negative economic consequences’ and then sets out a list including ‘lost profits’ and ‘unfair profits,’ the former being the closest to common law damages with the latter to an account of profits. That can be read as permitting both remedies and is in contrast to the Recital 26 of the Directive which refers to ‘all appropriate aspects, such as loss of earnings...or unfair profits.’ Article 13 takes precedence, with Recital 26 appearing to permit an election.⁶⁶⁷ Phillip Johnson also discussed the relevance of the requisite knowledge, which is must be present for damages to be awarded under Article 13(1), whereas under Article 13(2) Member States are permitted, but not required to award damages and allows damages on a pre-determined scale.⁶⁶⁸ In *Hollister*, the court indicated that an account might be refused where the requisite knowledge is not present.⁶⁶⁹ The meaning of ‘knowledge’ is an important point as the application of Article 13(1) will turn on it.⁶⁷⁰ It is likely that ‘knowingly’ in Article 13 equates with actual knowledge, but what would ‘reasonable grounds’ equate to, with autonomous EU meaning?⁶⁷¹ At that stage, there were many unanswered questions about the application of the Article 13. The complications that arise from assessing an account of profits make the option of pre-established damages an attractive proposition.

The law relating to an inquiry as to damages fell to be considered further, by Hacon HHJ, in *SDL Hair Limited v Next Row Limited (1) RMG Limited (2) UNIL C9 Limited (3) Gavin Rae (4)*,⁶⁷² a case concerning an inquiry as to damages in a patent claim. Hacon HHJ very helpfully summarised the principles relating to an inquiry, by reference to the case law as it stood in 2014. A successful claimant is entitled, by way of compensation,

⁶⁶⁶ Gwilym Harbottle ‘The Implementation in England and Wales of the European Enforcement Directive’ (2006) 1 JIPLP 719, 726; and Ashley Roughton, Phillip Johnson and Trevor Cook, *The Modern Law of Patents*, (2nd ed.Lexisnexis 2010), [14.189].

⁶⁶⁷ Phillip Johnson, Damages in European Law (n 446) 296-306.

⁶⁶⁸ Phillip Johnson, Damages in European Law (n 446) 296-306.

⁶⁶⁹ *Hollister* (n 436) [55].

⁶⁷⁰ Phillip Johnson, Damages in European Law (n 446) 305

⁶⁷¹ Phillip Johnson, Damages in European Law (n 446) 304.

⁶⁷² *SDL Hair Limited v Next Row Limited (1) RMG Limited (2) UNIL C9 Limited (3) Gavin Rae (4)* [2014] EWHC 2084 (IPEC).

to that sum of money that would put him in the position that he would have been in had he not sustained the wrong,⁶⁷³ with the claimant bearing the burden of proving the loss.⁶⁷⁴ The defendant, being a wrong doer, the damages should be assessed liberally, but the aim is compensation, not punishment.⁶⁷⁵ In relation to causation, it is not enough for the claimant to show that the loss would not have occurred *but for* the tort, it is necessary for the tort to be the sole or dominant cause of the loss and the claimant is entitled to recover loss that was foreseeable, caused by the wrong and not excluded from recovery by public or social policy.⁶⁷⁶ The inquiry will generally require the court to make an assessment of what would have happened had the tort not been committed and to compare that with what actually happened. This is where the assessment of the claimant's loss becomes speculative, as it requires the court to compare future events that would have been expected to occur had the tort not been committed and on the other hand, events that are expected to occur, the tort having been committed.⁶⁷⁷ Quoting Jacob J in *Gerber Garment Technology* at first instance,⁶⁷⁸ the judge stated that not much in the way of accuracy is to be expected bearing in mind all the uncertainties of quantification. A rough and ready approach to assessment leaves a high probability that there will be under compensation or over compensation and neither outcome provides proportionality or deterrence. This point is linked in to the issue of causation, as the court has to determine causation on the balance of probabilities, it being irrelevant whether the court thinks that the balance only just tips in favour of the claimant or that the causation claimed is overwhelmingly likely.⁶⁷⁹

The court has to indulge in ever greater speculation where the claimant's loss depends on future uncertain events, as the court has to undertake an assessment expressed in percentage terms of the loss occurring, rather than on the balance of probabilities, with the assessment depending in part, on the hypothetical act of a third party.⁶⁸⁰ The claimant has to show that there was a substantial, as opposed to a speculative chance that he would have enjoyed the benefit conferred by the third party, had the tort not

⁶⁷³ *Livingstone v Rawyards Coal Co.* (n 593) 39, per Lord Blackburn; *SDL Hair* (n 672) [31].

⁶⁷⁴ *General Tyre* (n 9) 212.

⁶⁷⁵ *General Tyre* (n 9) 212.

⁶⁷⁶ *Gerber* (n 56) 452.

⁶⁷⁷ *SDL Hair* (n 672) [31].

⁶⁷⁸ *Gerber Garment Technology* at first instance, [1995] RPC 383 (Jacob J) 395-396.

⁶⁷⁹ *Allied Maples* (n 66) 1609-1610.

⁶⁸⁰ *Allied Maples* (n 66) 1610.

been committed.⁶⁸¹ Thereafter the likelihood of the benefit goes only to the quantification of damages. The effect of *Allied Maples* came before the Court of Appeal in two subsequent cases; *Parabola Investments Ltd v Browallia Cal Ltd*⁶⁸² and *Vasiliou v Hajigeorgiou*⁶⁸³ In *Parabola*, the claimant, a successful trader was defrauded over a sustained period by the defendant and the court accepted that but for the fraud, on a balance of probability the claimant would have traded profitably up to the period that its relationship with the defendant came to an end and would have traded more profitably than it did in the subsequent period up to the trial, because it would have had a larger trading fund. The Court of Appeal upheld the court's decision at first instance and the claimant was therefore entitled to damages for both periods of loss, as once the two heads of loss had been established on the balance of probability, the next stage was to quantify the loss. Where this involved a hypothetical exercise, it was not to be done by applying the balance of probability approach as it would be applied to the proof of past facts. The court had to estimate the loss by making the best attempt it could to evaluate the chances, taking all significant factors into account.⁶⁸⁴ The Court of Appeal in *Vasiliou*⁶⁸⁵ considered the claim where a restaurant was unable to trade because of the defendant's breach of covenant. In two separate assessments of damages, the court upheld a finding that the restaurant would have been a success had it traded and it assessed the profits that it would have made. The Court of Appeal rejected the defendant's submission that the award should have been discounted to reflect the risk that the claimant would not have achieved the level of profit assessed. Patten LJ stated that 'Where the quantification of loss depends on an assessment of events which did not happen, the judge is left to assess the chances of the alternative scenario he is presented with. This has nothing to do with loss of chance as such. It is simply the judge making a realistic and reasoned assessment of a variety of circumstances in order to determine what the level of loss has been.'⁶⁸⁶ The level of profits are the sums left after deducting allowable expenses from the sums received or receivable by the defendant in respect of the infringing act. The court will allow in their entirety, any costs that were associated solely with the infringing acts, which include

⁶⁸¹ *Allied Maples* (n 66) 1611-1614.

⁶⁸² *Parabola Investments Ltd v Browallia Cal Ltd* [2010] EWCA Civ 486; [2011] QB 477.

⁶⁸³ *Vasiliou v Hajigeorgiou* [2010] EWCA Civ 1475.

⁶⁸⁴ *Parabola* (n 682) [23]; *SDL Hair* (n 672) [33].

⁶⁸⁵ *Vasiliou* (n 683)[25], *SDL Hair* (n 672) [34].

⁶⁸⁶ *Vasiliou* (n 683)[25], *SDL Hair* (n 672) [34].

the costs of purchasing and importing the relevant products, or any increased overheads specifically related to the infringing acts.⁶⁸⁷ The allowable expenses can also include a proportion of the defendant's general overheads, unless they would have been incurred anyway and the sale of infringing products would not have been replaced by the sales of non-infringing products.⁶⁸⁸ The court has approved a broad brush approach to the deduction of general overheads⁶⁸⁹ although it may be appropriate to use a different basis of apportionment for different types of overheads. A basis that is fair and appropriate for business premises, may not be fair and appropriate for wages.⁶⁹⁰ The question posed by the court as regards deductible overheads is a relatively simple one to ask, even if it may not be easy to answer.⁶⁹¹ The evidential burden rests on the defendant to support a claim that it is appropriate to make a deduction on account of a sum said to be an allowable expense.⁶⁹² A detailed assessment of general overheads that can be taken into account and appropriate apportionment was set out by Nicholas Caddick Q.C. in *Bei Yu v Nuby*⁶⁹³

An inquiry into an account of profits is not an exact science and these authorities highlight the broad brush approach, taken by the courts. *Parabola* and *Vasiliou* were considered by Nugee J and approved in *Wellesley Partners LLP v Withers LLP*,⁶⁹⁴ a professional negligence case. He stated that 'As these citations show, despite *Allied Maples* having been the leading authority for nearly 20 years, this area is one that continues to cause real difficulties of classification and application....' The court then attempted to summarised the principles derived from these authorities.⁶⁹⁵ It is clear from the summary that there is a distinction between whether a loss has been caused and the quantification of that loss and that while the distinction in principle is clear, what is not always clear, is where the line is to be drawn. Some claimants have only ever lost an opportunity to obtain something else, such as the chance to take part in a

⁶⁸⁷ *OOO Abbott v Design Ltd* [2017] EWHC 932 (IPEC) (Hacon HHJ), at [57(1) and (2)].

⁶⁸⁸ *OOO Abbott* (n 687) [57(3)].

⁶⁸⁹ *Jack Wills Ltd v House of Fraser (Stores) Ltd* [2016] EWHC 626 (Ch) at [10].

⁶⁹⁰ *Jack Wills* (n 689) [53].

⁶⁹¹ *OOO Abbott* (n 687) [39].

⁶⁹² *OOO Abbott* (n 687) [57(4)].

⁶⁹³ *Bei Yu Industrial Co. v Nuby (UK) (LLP) (1) Ms Maria Louise Burnell (2)* [2022] EWHC 652 (IPEC) [25]-[44], (Nicholas Caddick QC, sitting as a Deputy High Court Judge).

⁶⁹⁴ *Wellesley Partners LLP v Withers Partners LLP* [2014] EWHC 556 (Ch).

⁶⁹⁵ *Wellesley Partners* (n 694) [188].

competition or the opportunity to bring litigation. It would be wrong to value the right to enter a competition at the value of the prize to be won, as claimant only ever had the right to take part in the competition, not to win the prize. Similarly, the right to bring litigation should not be valued as the right to succeed in that litigation. These examples perhaps illustrate what the court meant by lack of clarity as to where the line between whether a loss has been caused and the quantification of that loss, can be unclear. The *Wellesley* case gave some clarity to the distinction between the loss of a valuable right and the loss of an opportunity of gaining a benefit, albeit one that depends on a third party acting in a particular way.⁶⁹⁶ In such a case the claimant is only required to prove that there was a real and substantial chance that the third party would have acted in a particular way and this remains a question of causation rather than quantification.⁶⁹⁷ However, if the claimant does establish that there was a real and substantial chance, then when the court has to undertake a quantification exercise and the damages will be assessed not at 100% of the value of the benefit he would have obtained, but at the appropriate percentage having regard to his chances of obtaining it. This exercise can benefit the claimant, because even if there was only a 30% chance that the claimant would have obtained a benefit, he only has to prove that he has lost a real and substantial chance, to recover the 30%, (as opposed to recovering nothing if he has to prove how the third party would have acted on the balance of probabilities). If the chance was 70% it has the effect of enabling him to recover only 70% of the amount he would otherwise have recovered. The claimant does not, however, have the choice of whether to adopt the *Allied Maples* approach.⁶⁹⁸

An account of profits may also be based upon an assessment of the loss of opportunity to trade generally, rather than where the claimant seeks to establish as a matter of causation that he has lost the opportunity of acquiring a specific benefit dependent upon the actions of a third party. In such a claim, the court is tasked with establishing at the outset, whether the claimant would have traded successfully and it remains unclear whether that is part of the causation question and separate from the

⁶⁹⁶ *Allied Maples* (n 66).

⁶⁹⁷ *Vasiliou* (n 683) [22] and *First Interstate Bank of California v Cohen Arnold & Co* [1996] CLC 174, 182 (Ward LJ), cited in *Vasiliou* at [43].

⁶⁹⁸ *SDL Hair* (n 672) [35].

quantification process. In *Parabola*⁶⁹⁹ the court treated a finding that on the balance of probability the claimant would have traded profitably as part of the question of causation, on the basis that the claimant first has to establish an actionable head of loss, which comes before the quantification of that loss. This is in contrast to *Vasiliou*⁷⁰⁰ where the court treated it as part of the exercise of quantification. Patten LJ concluded that the breach has caused the loss subject only to the quantification of that loss, with the claimant's competence and the restaurant's prospects of success not being matters that went to causation at all but being relevant at most to the assessment of how profitable the restaurant would have been. This view differs from the *Allied Maples*⁷⁰¹ type of case as it does not require the court to find that there was a real and substantial chance of a third party acting in a particular way, but only to reach a conclusion as to the profitability of the claimant's trading. This is a simple yes or no question which falls to be determined on the balance of probabilities. The overwhelming difficulty in undertaking an account of profits in such circumstances is determining the level of custom in a business such as a restaurant and whether this would have sufficed to make it successful. There will be a more onerous evidential burden in those circumstances than in assessing how an individual third party would have behaved. The court approaches an assessment of profitability by initially finding that a business would be profitable, before quantifying the loss of profits taking into account all the various contingencies which affect it.⁷⁰² It does not require any particular matter to be proved on the balance of probabilities,⁷⁰³ nor does it have anything to do with the loss of a chance as such.⁷⁰⁴ The assessment itself will include an evaluation of all the chances, great or small, involved in the trading.⁷⁰⁵ Once the profits have been assessed any further discount is inappropriate.⁷⁰⁶ Although an account of profits prevents the defendant from any unjust enrichment as a result of his infringement by depriving him of any gains made, it remains a compensatory mechanism for assessing the claimant's loss. It is also an expensive and time consuming exercise, as the court requires sufficient evidence to make assumptions

⁶⁹⁹ *Parabola* (n 682) [23]; *SDL Hair* (n n 672) [35].

⁷⁰⁰ *Vasiliou* [2010] EWCA Civ 1475, at [23], *SDL Hair* (n 672).

⁷⁰¹ *Allied Maples* (n 66).

⁷⁰² *Parabola* (n 682) [23].

⁷⁰³ *Parabola* (n 682) [24].

⁷⁰⁴ *Vasiliou* (n 683) [24].

⁷⁰⁵ *Parabola* (n 682) [23].

⁷⁰⁶ *Vasiliou* (n 683) [28].

about the claimant's likely business success and profits. As Mr Justice Norris put it in *Fabio Perini v LPC*⁷⁰⁷ 'so much for what happened in the real world. I must now apply the legal principles outlined above and (so far as necessary) enter the world of 'what would have been.'

4.5 *The effect of Article 13 on the assessment of profits*

The *SDL hair* case did not address Article 13 of the Enforcement Directive 2004/48/EC and its effect on the principle of assessment of profits. That was subsequently considered by Hacon HJJ in *Henderson v All Around The World Recordings*.⁷⁰⁸ That case concerned an inquiry into damages arising from the defendant's breach of the claimant's performer's rights. The claimant sought loss of royalties, further damages pursuant to Regulation 3 of the Intellectual Property (Enforcement etc) Regulations 2006 and additional damages in accordance with section 191J(2) of the CDPA 1988, which is in similar terms to section 97(2) of that Act. At this juncture the focus is on the decision as to lost profits, with other heads of damages being considered subsequently.

Hacon HJJ confirmed the general law relating to an inquiry as to damages as he set out in *SDL Hair*,⁷⁰⁹ but went on to address the effect of the Enforcement Directive and the Regulations head on in assessing their effect upon an account of profits.⁷¹⁰ The claimant sought an award based upon the accumulation of both lost profits and unfair profits. The English law has been clear, in that the remedies of an inquiry as to damages and an account of profits are only available as alternatives⁷¹¹ and although the claimant is free to select between them, he may not have the benefit of both. This was addressed in *Hollister v Medik Ostomy*⁷¹² in which Kitchen LJ stated that 'An assessment of the damage caused to the claimant forms no part of an account of profits made by the infringer and the approach adopted by the judge (at first instance)

⁷⁰⁷ *Fabio Perini S.P.A. v LPC Group Plc, Paper Converting Machine Company Italia, Paper Converting Machine Company Limited, LPC (UK) Limited* [2012] EWHC 911 (Ch) (Norris J) [99].

⁷⁰⁸ *Henderson* (n 462).

⁷⁰⁹ *SDL Hair* (672).

⁷¹⁰ *Henderson* (n 462) [72]-[84].

⁷¹¹ *Redrow Homes* (n 472) 796-7.

⁷¹² *Hollister* (n 436) [71].

constituted an illegitimate amalgamation of two quite different ways of assessing compensation.’

What had to be considered in *Henderson*, was whether the situation differs depending on whether there had been knowing infringement or with reasonable grounds to know (the requisite knowledge). The issue of knowledge was not in issue in *Hollister* and the judgment suggested that even if it had been, there would have been no change to the requirement to elect between the two, which would have been a radical alteration to the law regarding the relief available for the infringement of an IP right.⁷¹³ The right to elect between an inquiry as to damages and an account of profits is retained by Article 13(2), regardless of the presence of the requisite knowledge.⁷¹⁴ The basis for this appears to be that under Article 13(2), the court is obliged to take into account, under sub sections (a) (i) and (ii), all appropriate aspects, including in particular, the negative economic consequences, which include loss profits and any unfair profits and non economic elements, such as moral prejudice. Then there is the alternative, *or* (b) where appropriate, they may be awarded on the basis of royalties or fees which would have been due under a licence. The use of the word *or* provides an alternative basis. Where the requisite knowledge is proved, the court, under Article 13(1)(a) is required to take into account relevant aspects of the actual prejudice suffered by the claimant as a result of the infringement, which include the claimant’s lost profits and the defendant’s unfair profits, so overall, the defendant must order the knowing infringer to pay the claimant damages appropriate to the actual prejudice suffered as a result of the infringement.⁷¹⁵ The actual prejudice suffered is usually the claimant’s lost profit, with the possible addition of expenses incurred. Although Article 13(1) does not expressly permit the recovery of the defendants’ profits by way of an alternative, it would be strange if that alternative was available where the requisite knowledge was not present, but not if the knowledge was present. The court discounted the possibility of Article 13(1) being broad enough to include restitutionary damages and concluded that it would be difficult to envisage circumstances where both actual damages and an account of profits would be appropriate to the actual prejudice suffered.⁷¹⁶ Recital 26

⁷¹³ *Henderson* (n 462) [74].

⁷¹⁴ *Henderson* (n 462) [75].

⁷¹⁵ *Henderson* (n 462) [76].

⁷¹⁶ *Henderson* (n 462)[76].

of the Directive, clarifies that the aim of the Directive is not to provide punitive damages, but compensation and this reinforces the position that the aim of Article 13(1) is to provide objectively assessed compensation, but not more than that, as more would carry the risk of imposing punitive damages.⁷¹⁷ The court has to take the claimant and its profit, as it is and it is the defendant's actual profit that the court has to identify, rather than the profit that the defendant could or ought to have made.⁷¹⁸

Where the court had to assess the concept of 'unfair profits' in the context of the Enforcement Directive, the question appeared to arise as to when can the court take account of the defendant's unfair profits, as it had dismissed the situation where profits were deemed to be automatically unfair if they are derived from acts of knowing infringement. The implication would be that whenever knowledge is established, the claimant would be entitled to receive what could be regarded as a bonus on top of damages for loss of profit, where that bonus would be likely to increase in proportion to the defendant's profit. That again, would be contrary to the aim of awarding damages appropriate to the actual prejudice suffered and the aim of avoiding punitive damages.⁷¹⁹ It is here that the court had to contemplate what Article 13(1)(a) was trying to achieve by way of adequate compensation for actual prejudice suffered. Where the lost profits, moral prejudice and expenses, 'user principle' royalties or an account of profits would be inadequate compensation, there is sufficient flexibility under Article 13(1) to award an additional sum relating to the profit from the defendant's knowing infringement. This has been discussed in Chapter Three in relation to the EU framework and includes cases where the defendant has made no direct financial profit from the infringement, but has expanded his business by volume or reputation. The claimant would not only have experienced lost sales, but possible further loss from the defendant's competing business and this could be considered to be a contingent and unfair profit.⁷²⁰ It may also be applied where the defendant has calculated that his benefit outweighs the actual prejudice suffered by the claimant and may act as a deterrent.

⁷¹⁷ *Henderson* (n 462) [77].

⁷¹⁸ *Bei Yu Industrial Co. v Nuby* (n 673) [5], citing *Hotel Cipriani v Cipriani Grosvenor Street* [2010] EWHC 628 (Ch) (Briggs J), [8]; *Jack Wills* (n 689) [10].

⁷¹⁹ *Henderson* (n 462) [79].

⁷²⁰ *Henderson* (n 462) [81].

As the authorities have shown, the basis of an account of profits is to deprive the defendant of his ill gotten gains and prevent his unjust enrichment. The *Henderson* case⁷²¹ assessed the application of the Enforcement Directive 2004/48/EC on an inquiry into an account of profits and the effect of such an award is to do no more than compensate the claimant for the actual prejudice suffered as a result of the infringement, noting that the object is to compensate the claimant, not to punish the defendant. While it may be argued that to deprive a defendant of his profits is ultimately to deter his infringing conduct in the future it falls far short of any punitive effect. The mechanics of the assessment undertaken by the court, indicate a time consuming and expensive process of attempting to speculate on how successful the claimant's business interests may have been, in order to broadly put the claimant back in the position they would have been in, had the infringement not occurred. The risks are under compensation or over compensation, with a strong probability of inaccuracies in the overall assessment. Where it is considered that the claimant will be under compensated, the court can award an additional sum under Article 13(1). Such an award has no reference to a standardised scale or based upon factors that could determine whether a higher or lower award is justified. There is an argument that an account of profits should only be selected where there is clear evidence to prove the claimant's loss and that in the absence of such evidence, rather than indulge in speculation, the court should have the option of making an award of damages based upon a standardised scale or criteria, which could be applied in such a way as to provide a sufficient punitive element to deter the infringing conduct.

4.6 *The user principle*

A second method of compensating a right holder who has suffered losses arising from the infringement of his IP right, is based on the 'user principle,' which, as will be demonstrated, does not act as a sufficient deterrent to copyright infringement, being almost analogous to a hire type agreement. Reasonable royalty damages are important as they are almost always available to a successful claimant in an IP claim. It

⁷²¹ *Henderson* (n 462).

is not always possible for a claimant to easily show that they have lost sales as a result of the infringement and it may be unclear whether the infringer has made any, or any substantial profit from the infringing activities, which may be awarded to the claimant to compensate him and prevent the defendant's unjust enrichment. The principle goes back a considerable way, with the House of Lords considering a patent case and Lord Shaw stating⁷²² 'Whenever an abstraction or invasion of property has occurred, then, unless such abstraction or invasion were to be sanctioned by law, the law ought to yield a recompense under the category or principle, as I say, of price or hire. If A, being a liveryman, keeps his horse standing idle in the stable and B, against his wish or without his knowledge, rides or drives it out, it is no answer to A for B to say: 'against what loss do you want to be restored? I restored the horse, there is no loss. The horse is none the worse; it is the better for the exercise.' Lord Shaw's observation was that if the law offers no compensation against your horse being 'borrowed' like this, then in a sense do you really *own* the horse at all? Similarly, in IP, the extent to which IP rights can be said to be *owned*, is seriously diminished as there is inherent harm in the infringement of a legal right.⁷²³ This chapter has set out the principles relating to an account of profits and it will consider the situation where damages are calculated on the basis of the royalties that the defendant would have paid had he acted legally and the claimant grants licences to third parties to use his IP rights. The 'user principle' can be used to compensate the claimant based upon the hypothetical licensing fee based on a hypothetical negotiation taking place between the parties and which results in a hypothetical licence agreement.

The modern notion of the user principle is derived from *General Tyre v Firestone*⁷²⁴ and developed in *Gerber Garment v Electra Systems*.⁷²⁵ The term 'user principle' was derived from the case of *Stoke-on Trent Council v W & J Wass Ltd*⁷²⁶ by Nicholls LJ. Lord Shaw moved on from his equine analogy in *Watson, Laidlaw*⁷²⁷ and observed that a patentee is also entitled, on the principle of price or hire, to a royalty for the

⁷²² *Watson, Laidlaw & Co Ltd v Pott, Cassels & Williamson* [1914] 31, RPC,

⁷²³ See also a similar analysis relating to the use of a chair, in *The Mediana* [1900] AC 113, at 117, (Earl of Halsbury LC)

⁷²⁴ *General Tyre* (n 9).

⁷²⁵ *Gerber* (n 56).

⁷²⁶ *Stoke-on-Trent Council* (n 54) 1416 (Nicholls LJ).

⁷²⁷ *Watson Laidlaw* (n 722)[120].

unauthorised sale or use of every one of the infringing machines in a market in which the patentee, if left to himself, might not have reached. He considered that a royalty is an excellent key to unlocking the difficulty of the situation where the monopoly of a patent has been invaded and abstracted and the law, when appealed to, would be standing by and allowing the invader or abstractor to go free. Each infringement is an actionable wrong and even though the infringements may have been committed in a range of business or in territory which the patentee might not have reached, he is entitled to hire or royalty in respect of each unauthorised use of his property, otherwise the remedy might fall unjustly short of the wrong.⁷²⁸ The principle was extended to copyright infringement, by Sir Andrew Morritt V-C, in *Blayney t/a Aardvark Jewellery v Clogau St David's Gold Mines Ltd*⁷²⁹ who could see no reason not to apply it in cases of infringement of copyright. The nature of a monopoly conferred by patent is not the same as that conferred by copyright, but he could see no reason why that should affect the recoverability of damages in cases where the monopoly right has been infringed. The fact that the claimant may not be able to prove the application of one measure of damages, namely lost sales, does not mean that he has suffered no damage at all, rather, some other measure by which to assess the compensation for that interference must be sought.

Damages awarded under the user principle have often been made without any assessment as to their true remedial objective, relying on the concept of justice to vindicate them.⁷³⁰ They have often been made without identifying them as compensatory or restitutionary, or both. Damages have been awarded in trespass cases, without evidence that the claimant could have let the property to a third party in the absence of the trespasser, based upon the ordinary letting value of the property, in the absence of special circumstances,⁷³¹ without further discussion as to the basis of the award. *Whitwham v Westminster Brymbo Coal and Coke Co*⁷³² awarded damages with a compensatory basis in mind, Lindley LJ stating that 'It is unjust to leave out of

⁷²⁸ *Watson Laidlaw* (n 722) quoting Lord Moulton in *Meters Ltd v Metropolitan Gas Meters Ltd* (28 RPC 163).

⁷²⁹ *Blayney* (n 72) [20].

⁷³⁰ Kelvin F K Low, The User Principle: *Rashomon* Effect or Much Ado About Nothing? Singapore Academy of Law Journal (2016) 28 SacLJ, 984, at 989.

⁷³¹ *Swordheath properties Ltd v Tabet* [1979] 1 WLR 285, at 288 (Megaw LJ).

⁷³² *Whitwham v Westminster Brymbo Coal and Coke Co* [1896] 2 Ch 538, at 541-542 (Lindley J).

sight the use which the defendants have made of this land for their own purposes, and that lies at the bottom of what are called way-leave cases. Those cases are based upon the principle that, if one person has without leave of another been using that other's land for his own purposes, he ought to pay for such user.' He noted that 'On what principle can it be said that these defendants are to use the plaintiff's land for years for their own purposes and pay nothing for it, in addition to the injury that they have done to the land.'⁷³³ Conversely, a leading case on a restitutionary analysis, is *Ministry of Defence v Ashman*,⁷³⁴ a claim for mesne profits arising out of the defendant's failure to vacate a Ministry of Defence property after being given notice. The Court of Appeal reduced the award based on the full market rate, substituting it for an award based upon the local authority housing rate, with the reduction being based on an application of subjective devaluation. The court found that it was not expressly stated that a claim for mesne profit for trespass can be a claim in restitution. In *Attorney General v Blake*⁷³⁵ Lord Nicholls' view was that user principle awards cannot be regarded as conforming to the strictly compensatory measure of damage for the injured person's loss, unless the loss is given a strained and artificial meaning. The reality is, that the person's rights were invaded, but, in financial terms he has suffered no loss. Nevertheless, the common law has found a means to award him a sensibly calculated amount of money and such awards are probably best regarded as an exception to the general rule, that damages are compensatory. He later clarified his view in *Kuwait Airways Corp v Iraqi Airways Co.*⁷³⁶ noting that the fundamental object of an award of damages for conversion is to award just compensation for loss suffered, but that it would not be right for the that the wrongdoer should benefit from his temporary use of the goods. The court may order him to pay damages assessed by reference to the value of the benefit he derived from his wrongdoing. In an appropriate case, the court may award damages on this 'user principle,' in addition to compensation for loss suffered. If goods are returned damaged, the court may assess damages by reference to the benefit obtained by the wrongdoer, as well as the cost of repair. The restitutionary basis for an award of damages was applied in *Penarth Dock*

⁷³³ *Whitwham* (n 732) at 542.

⁷³⁴ *Ministry of Defence v Ashman* [1993] 2 EGLR 102 at 106.

⁷³⁵ *Blake* (n 70).

⁷³⁶ *Kuwait Airways Corp v Iraqi Airways Co.* [2002] 2 AC 883 at [87].

Engineering Co Ltd v Pounds,⁷³⁷ another trespass case, where the plaintiffs sued the defendant for trespass for ignoring demands to remove his floating pontoon from the plaintiff's dock. Lord Denning MR awarded substantial damages, despite his acknowledgment that the plaintiff had suffered no loss. He identified the measure of damages as being not what the plaintiff has lost, but the benefit that the defendant gained by having use of the berth. Mitchell McInnes describes the concept of loss and gain.⁷³⁸ 'If it is fictional to regard an objectively reasonable price as the claimant's loss, it must be equally fictional to treat it as the defendant's gain. Loss and gain reflect two sides of the same hypothetical bargain.' 'Whether an adoption of a standard measure of damages represents a departure from a compensatory approach depends upon what one understands by compensation and whether the term is only apt in circumstances where an injured party's financial position, viewed subjectively, is being precisely restored. The law frequently introduces objective measures, such as the available market rules in sale of goods, or in limitations, such as remoteness. The former may increase or limit a claimant's ability to recover loss actually suffered. Another situation where damages do not necessarily depend upon precisely what would have occurred but for the wrong, is where there has been a conversion.'⁷³⁹ In 1966, Goff and Jones published *The Law of Restitution*⁷⁴⁰ in which they offered a new taxonomy of remedies in private law by describing 'restitutionary remedies' which had been believed to be compensatory before then. Robert Stevens⁷⁴¹ offers a rights based theory, in which he believes that both gain based and loss based analyses are doomed to fail, as these types of damages in private law are clearly rights based. This theory accords with the trespass cases set out above, where a trespasser has encroached upon the land owner's 'right' over the land trespassed upon.

The user principle can be described as 'negotiation damages' and can include reasonable royalties, licence fee damages and damages in lieu of an injunction. A landmark case, *Wrotham Park Estate Co Ltd v Parkside Homes Ltd*⁷⁴² concerned the

⁷³⁷ *Penarth Dock Engineering Co Ltd v Pounds* [1963] 1 Lloyd's Rep 359 at 362.

⁷³⁸ Mitchell McInnes, 'Gain, loss and the User Principle' [2006] RLR 76, at 83. See also Robert Stevens, *Torts and Rights* (OUP 2007), 78

⁷³⁹ *Experience Hendrix* (n 595) [26] (Mance LJ).

⁷⁴⁰ R Goff and G Jones, *The Law of Restitution* (Sweet & Maxwell 1966).

⁷⁴¹ Stevens, (n 738).

⁷⁴² *Wrotham Park Estate Co Ltd v Parkside Homes Ltd* [1974] 1 WLR 798 (Ch).

situation where the defendants wrongly constructing properties on land in breach of a restrictive covenant and the claimants sought an injunction for the demolition of those properties. The court refused an injunction, but the main obstacle to an award of damages was that the claimant could not demonstrate any financial loss and the land had not sustained any diminution in value. Brightman J, relying on user principle cases, decided that the claimant was entitled to more than nominal damages. The sum of £2,500 was awarded on the basis that a just substitution for a mandatory injunction would be such a sum of money as might reasonably have been demanded by the plaintiffs from the defendant as a quid pro quo for relaxing the covenant.⁷⁴³ The court had to consider the arguments relevant to determining what the result of hypothetical release negotiations between the parties would have been, where the claimant would have demanded a sum for allowing the defendant to build properties contrary to the covenant.⁷⁴⁴ *Wrotham Park* damages are negotiation damages and differ from the other damages discussed in the *Wrotham Park* case.

The courts have awarded damages of £2,500,000, on the basis of hypothetical negotiation where the defendants had simply breached the claimants' rights without using anything, by being in breach of contractual terms not to release confidential information and not to enter into a contract with a third party.⁷⁴⁵ Where the first defendant had licenced various master recordings made by Jimmy Hendrix, in breach of the terms of a settlement agreement made between the parties following a long history of disputes, a proportion of the defendant's royalties on the retail sale price of the records was awarded for wrongful use of the masters, applying the *Wrotham Park* case, even though there was neither a breach of a restrictive covenant, nor any use of land in issue. The court acknowledged that despite the fact that damages in *Wrotham Park* were awarded for breach of a restrictive covenant, that did not limit the court's ability to award *Wrotham Park* damages only for such cases.⁷⁴⁶ These damages have also been awarded in tort cases, where the right being infringed is not a contractual right, but one that derives directly from the law, in instances such as where the

⁷⁴³ *Wrotham Park* (n 742) 815.

⁷⁴⁴ *Wrotham Park* (n 742) 815.

⁷⁴⁵ *Pell Frischmann Engineering Ltd v Bow Valley Iran Ltd* [2003] EWCA Civ 323; [2003] 1 ALL ER (Comm) 830.

⁷⁴⁶ *Experience Hendrix* (n 595) [56].

defendant had trespassed on the claimant's land by unintentionally laying a water main under it. The Court of Appeal approved only £610.00 of the £2,170 awarded at first instance, with £500.00 being awarded on a *Wrotham Park* basis, as the court described it.⁷⁴⁷ All of these cases, where described with relation to *Wrotham Park*, are based on a hypothetical negotiation between the parties whose subject matter is the release of the claimant's right.

4.7 *Royalties and reasonable licence fees*

Where a claimant's IP right is breached, as this thesis shows, the monetary award takes different forms, including sales lost as a result of the infringement or based on an account of profits. The third type of award is 'reasonable royalties' or reasonable licence fees.' These can be described as negotiation damages, being based on the hypothetical release negotiations between the parties and are negotiation damages in the specific context of the breach of an IP right. Such damages were explained by Lord Wilberforce in *General Tyre v Firestone*,⁷⁴⁸ whereby the claimant's valuable invention was infringed by the defendant over several years, during which, they made substantial profits. The court accepted that the correct measure of damages was a reasonable royalty. The fee that the defendant infringer must pay as a reasonable royalty was 'the sums which *he would have paid* by way of royalty if, instead of acting illegally, he had acted legally, or had acquired the claimant's permission. The reasonable royalty is a damages award based on a hypothetical negotiation as a result of which, the claimant would release his IP right for a fee paid by the defendant, therefore, they could not be described as providing a sufficient deterrent, with the defendant being able to assess that while there may be a risk of apprehension, if it transpires that he is caught infringing, he will only pay what he would have negotiated in any event.

The user principle was discussed in some detail, in *Henderson v All Around The World Recordings*.⁷⁴⁹ Citing *Force India Formula One Team Limited v 1 Malaysia Racing Team*

⁷⁴⁷ *Severn Trent Water Ltd v Barnes* [2004] EWCA Civ 570, [2004] 26 EG 194.

⁷⁴⁸ *General Tyre* (n 9) 825.

⁷⁴⁹ *Henderson* (n 462).

*Sdn Bhd*⁷⁵⁰ and Arnold J's consideration of *Wrotham Park* damages in *Force India*, which the Court of Appeal did not dissent from,⁷⁵¹ Hacon HHJ acknowledged that the overriding principle remained that damages are compensatory.⁷⁵² The primary basis for the assessment, is the consideration of what sum would have been arrived at in negotiations between the parties, had each been making reasonable use of their bargaining positions, bearing in mind the information available to the parties and in the commercial context at the time that the notional negotiation should have taken place.⁷⁵³ It is irrelevant that one or both parties would not in practice have agreed to make a deal⁷⁵⁴ and as a general rule the assessment is to be made at the date of the breach.⁷⁵⁵ The court has to indulge in a certain amount of speculation, in the same way as it does for an account of profits, as where there is no actual negotiation between the parties, it is deemed reasonable for the court to look at the eventual outcome and to consider whether or not, that is a useful guide to what the parties would have thought at the time of their hypothetical bargain.⁷⁵⁶ The court can also take into account any other relevant factors, in particular, any delay on the part of the claimant in asserting its rights.⁷⁵⁷

Wrotham Park damages, whilst based on a breach of contract were in all relevant respects, the same as those to be applied in *Henderson*.⁷⁵⁸ The principles of there being a determination of an inquiry into damages on the basis of there being a willing licensor and a willing licensee, was followed in the trade mark infringement case of *32Red OKC v WHG (International Limited)*⁷⁵⁹ which also expanded upon it. The court placed a limit on the subjective matters to be taken into account, with there being limits to the extent that the court will have regard to the parties' actual attributes when assessing the user principle damages. In particular, the financial circumstances of

⁷⁵⁰ *Force India* (n 463).

⁷⁵¹ *Force India* (n 463) [97].

⁷⁵² *Henderson* (n 462) [18] (Hacon HHJ) citing recent cases; *Blake* (n 70) 298; *Experience Hendrix* (n 595) [26] and *WWF v World Wrestling* [2007] EWCA Civ 286; [2008] 1 WLR 445, at [56].

⁷⁵³ *Experience Hendrix* (n 595) [45]; *WWF v World Wrestling* (n 752) [55]; *Liverpool and Lancashire Properties Limited and Another v Lunn Poly Ltd and Another* [2006] EWCA Civ 430 at [25] and *Pell v Bow* (n 745) [48][49].

⁷⁵⁴ *Pell v Bow* (n 745) [50].

⁷⁵⁵ *Liverpool v Lunn Poly* (n 753) [29]; *Pell v Bow* (n 745) [50].

⁷⁵⁶ *Pell v Bow* (n 745) [51].

⁷⁵⁷ *Pell v Bow* (n 745) [54].

⁷⁵⁸ *Henderson* (n 462) [19].

⁷⁵⁹ *32Red OKC v WHG (International Limited)* [2013] EWHC 815 (Ch), at [29]-[31].

the parties are immaterial and any individual character traits, such as whether one or other of the parties is easygoing or aggressive, are to be disregarded.⁷⁶⁰ That would appear to remove any requirement to determine if one side would have likely to strike a harder bargain, or whether their conduct was in any way flagrant. The court has to have regard to the circumstances in which the parties were placed at the time of the hypothetical negotiation, with a view to establishing the value of the wrongful use to the defendant himself, not a hypothetical person. That is subjective and the hypothetical negotiation is between the actual parties, who are assumed to bargain with their respective strengths and weaknesses.⁷⁶¹ The parties are expected to take into account whether at the time of the hypothetical negotiation, the defendant would have had a non-infringing course of action ⁷⁶² and this is not required to have all the advantages or other attributes of the infringing route for it to be relevant to the hypothetical negotiations.⁷⁶³ The hypothetical licence relates solely to the right infringed ⁷⁶⁴ and is for the period of the defendant's infringement.⁷⁶⁵ Matters such as whether the hypothetical licence is exclusive or whether it would contain quality control provisions will depend on the facts and must accord with the realities of the circumstances under which the parties were hypothetically negotiating.⁷⁶⁶ No logical explanation is given as to why the court must have regard to the circumstances in which the parties were placed at the time of the hypothetical negotiation, or that the circumstances do not include the parties' financial circumstances. The disregard for whether or not the parties would have reached a negotiation and the character traits of the parties do not reflect any principled limitations of the judicial process. Rather, it simply reflects the artificiality of the entire hypothetical bargain and it is perhaps for this reason that judicial decisions to include or exclude certain factors can be controversial.⁷⁶⁷ When we seek logic in fantasy, we are liable to find confusion rather than clarity.

⁷⁶⁰ *32Red OKC* (n 759) [29]-[33].

⁷⁶¹ *32Red OKC* (n 759) [32]-[33].

⁷⁶² *32Red OKC* (n 759) [34]-[42].

⁷⁶³ *32Red OKC* (n 759) [42].

⁷⁶⁴ *32Red OKC* (n 759) [47]-[50].

⁷⁶⁵ *32Red OKC* (n 759) [51]-[52].

⁷⁶⁶ *32Red OKC* (n 759) [56]-[58].

⁷⁶⁷ *Low* (n 730) 1012.

4.8 Compensation versus restitution

The case law has shown how the courts have strained to find ways to award IP right holders damages where there has been no financial loss, or the loss is hard to discern. However, there has never been a great deal of analysis of the remedial objective of user principle type awards, to establish whether they are compensatory or restitutionary. Where awards are identified as compensatory⁷⁶⁸ there has been no attempt to explain that basis, over and above an appeal for justice.⁷⁶⁹ The reference to such awards being a loss of an opportunity to bargain, suggests a compensatory basis.⁷⁷⁰ Some commentators have described this as ‘fictional’.⁷⁷¹ There is the false assumption that the parties are willing to negotiate, which is not always the case⁷⁷² and the discretionary hypothetical awards can result in under or over compensation, having being based on fiction. The case of *Strand Electric and Engineering Co Ltd v Brisford Entertainments Ltd*⁷⁷³ saw Lord Denning LJ refer to the restitutionary principle, stating ‘The claim for a hiring charge is therefore not based upon the loss to the plaintiff, but on the fact that the defendant has used the goods for his own purposes. It is an action against him because he has had the benefit of the goods. It resembles, therefore, an action for restitution rather than an action of tort.’ One of the leading cases based on the restitutionary principle, is *Ministry of Defence v Ashman*,⁷⁷⁴ where Hoffman LJ stated that ‘it has not been expressly stated that a claim for mesne profit for trespass can be a claim in restitution. Nowadays I do not see why we should not call a spade a spade. There is no reason why we ought not to recognise that where a distinction can be made between a compensation based claim and a restitution based claim, a claim for mesne profit, market rent, under the ‘user principle’ or however one

⁷⁶⁸ *Whitwham* (n 732) 541-542, 543.

⁷⁶⁹ *Whitwham* (n 732) 542 (Lindley LJ).

⁷⁷⁰ Robert J Sharpe & Stephen M Waddams, ‘Damages for Lost Opportunity to Bargain’ (1982) 2 Ox JLS 290.; *Tito v Waddell (No. 2)* [1977] Ch 106, at 335; *Jaggard v Sawyer* [1995] 1 WLR 269.

⁷⁷¹ Peter Birks, ‘Profits of Breach of Contract’ (1993) 109 LQR 518; William Goodhart, ‘Restitutionary Damages for Breach of Contract: The Remedy That dare Not Speak Its Name’ [2001] RLR 104; James Edelman, ‘The Compensation Straitjacket and the Lost Opportunity to Bargain Fiction’ [2001] RLR 104; James Edelman, *Gain-based Damages: Contract, Tort, Equity and Intellectual Property*, (Hart Publishing 2002), 99-102.

⁷⁷² *Wrotham Park* (n 742) 815.

⁷⁷³ *Strand Electric and Engineering Co Ltd v Brisford Entertainments Ltd* [1952] 2 QB 246, 254-255.

⁷⁷⁴ *Ministry of Defence v Ashman* [1993] 2 EGLR 102, at 106.

may choose to call the claim, is a claim for restitution.⁷⁷⁵ Apart from *Wrotham Park* damages, the market rule of an assessment of damages, is generally that they are considered compensatory.⁷⁷⁶ Loss is not always measured in purely financial terms⁷⁷⁷ and tort law compensates for non pecuniary loss, such as reputational harm⁷⁷⁸ 'which calls into play, in the task of restoration under compensation, inference, conjecture and the like. This is necessarily accompanied by those deficiencies which attach to the conversion into money, of certain elements which are very real which go to make up happiness and usefulness of life, but which were never so converted or measured. The restoration by way of compensation is therefore accomplished to a large extent, by the exercise of a sound imagination and a broad axe.'⁷⁷⁹

A recent authority on *Wrotham Park* damages, was *Morris-Garner v One Step (Support) Ltd*,⁷⁸⁰ a case involving employees acting in breach of post termination restraints. The claimant recognised that contractual damages should be the normal remedy but said that it would be very difficult to establish that any particular business had been lost because of the defendant's activities. The judge at first instance held that this was a prime example of a case in which *Wrotham Park* damages should be awarded. The Court of Appeal⁷⁸¹ upheld the decision and the right question was whether such an award of damages was a *just response*. It was held to be so, because the defendants were in deliberate breach of their obligations for their own reward. The claimant would have difficulty showing the resulting financial loss had a legitimate interest in preventing the defendant's profit making activity in breach of contract.⁷⁸² The case went to the Supreme Court and is of great significance for the law of damages generally. The effect of the judgment is to limit the circumstances in which a claimant can claim *Wrotham Park* damages. The leading judgment by Lord Reed was a thorough

⁷⁷⁵ *Cavenagh Investment Pte Ltd v Kaushik Rajiv* [2013] 2 SLR 543 [50].

⁷⁷⁶ Robert Stevens 'Damages and the Right to Performance: A Golden Victory or Not?', in *Exploring Contract Law* (Jason W Neyers, Richard Bronough & Stephen G A Pitel (ed. Hart Publishing 2009) 171.

⁷⁷⁷ *Ruxley Electronics and Construction Ltd. V Forsyth* [1996] AC 344.

⁷⁷⁸ See Phillip Johnson, Copyright Infringement and Damages for Injury to Reputation, 2020 *European Intellectual Property Review*.

⁷⁷⁹ *Watson Laidlow* (n 722) 117-118.

⁷⁸⁰ *Morris-Garner v One Step (Support) Ltd* [2018] UKSC 20.

⁷⁸¹ *Morris-Garner* (n 780).

⁷⁸² An application for similar relief was made in *Marathon Asset Management v Seddon* [2017] EWHC 300 (Comm); [2017] ICR 791, but it failed because the judge found on the facts that the value of the hypothetical fee was nil.

and learned analysis of the law which rejects the proposition that *Wrotham Park* damages are generally available as some type of fall back claim, because it is a just response. Of the classes of cases that he analysed, where negotiated damage had been awarded, these included the tortious claims relating to land, such as trespass or conversion, where a reasonable fee is compensation for the loss of the claimant's inability to control the use of property and where that power is a valuable asset. Damages by way of compensation under Lord Cairns' Act permits equitable courts to award damages in lieu of an injunction, where the damages are a substitution for the injunction and may reflect the economic value of the right not enforced and could reflect the fee which could have been demanded for the relaxation of the right. Lord Reed then considered the question of whether contract cases justified negotiated damages awards. His reasoning was that contract damages were a substitute for performance and that is why such damages are usually an adequate remedy. The law makes provision to assist in cases where proof is difficult and to enable damages to be paid for non economic loss. The aim is to establish the loss which flows from the defendant's failure to perform properly. The question was whether negotiated damages reflected the claimant's loss and the answer was that in general, they do not. The position would be otherwise only where the breach of contract deprived the claimant of a valuable asset, such as right over land, confidential information, or intellectual property. The loss can then be measured by determining the economic value of the asset in question.⁷⁸³ This case explicitly retains the power for the courts to award damages in accordance with the user principle for IP infringement cases.

The user principle remains a central tool for the courts to assess damages in IP cases, where the ability to prove financial loss is challenging. Whether an assessment is based upon the claimant's loss or the defendant's gain, it is an act of giving back to the claimant, what was illegally taken from him, either by a sum of money equivalent to his loss, or by a discretionary sum based upon the court's assessment of his loss, by analogy to the loss. To this extent, whether it is compensatory or restitutionary, in IP infringement it represents the lowest level of making good, the injury caused by the infringement, but it does not have a punitive element as such. As with an account of

⁷⁸³ *Morris-Garner* (n 780) [95(3)].

profits, the defendant is in some way deprived of his benefit gained by his infringement. That may act as a deterrent, but there is no real punitive element.

4.9 *Lost sales and lost profits*

The third method of assessing damages for IP infringement that Lord Wilberforce set out in *General Tyre v Firestone*⁷⁸⁴ was by way of lost sales or based upon a reasonable royalty. The most extensive literature on this subject pertains to the US.⁷⁸⁵ The empirical literature that does exist on reasonable royalties consists largely of descriptive statistics reporting median, average, or largest ever patent damages awards for selected countries.⁷⁸⁶ Cotter *et al* have analysed the concept of reasonable royalties in patent litigation. They consider that the reasonable royalty should be flexibly applied to as a device in the aid of justice⁷⁸⁷ although where an established royalty rate exists, the court have sometimes used that rate rather than endeavoring to construct a hypothetical bargain or an appropriate division of the profits projected or earned from the use of the invention. Where no such established rate exists, courts nonetheless frequently turn to comparable licence rates as an aid in constructing the hypothetical bargain, or, as in some countries, use industry standards.⁷⁸⁸ It is an imprecise calculation, but there are frequent difficulties in assessing actual lost sales. All sorts of factors will need to be taken into account when assessing the claimant's loss. For example, if a counterfeit or pirated product is sold at a much lower price than the original and customers probably know that they are buying a counterfeit, then it may be very difficult to say that all of those customers would have paid full price for the genuine article, if the infringing products were not available. On the other hand, if it is a very good counterfeit and sold at a similar price so that customers are misled, then each infringing sale does represent a lost sale on the part of the right holder. It may be, that in certain cases, nobody is being misled, but the right holder may still argue that at least a proportion of the infringing sales represents a lost sale on their

⁷⁸⁴ *General Tyre* (n 9).

⁷⁸⁵ See T. Cotter, J Golden J, J. Liivak, B. Love, N. Siebrasse, M. Suzuki, & D.Taylor, *Reasonable Royalties*, in C. Biddle, J. Contreras, B. Love, & N. Siebrasse (Eds.), *Patent Remedies and Complex Products: Toward a Global Consensus*, (6-49) (Cambridge University Press 2019).

⁷⁸⁶ Cotter and others (n 785) 6.

⁷⁸⁷ Cotter and others (n 785) 6.

⁷⁸⁸ Cotter and others (n 785) 6.

part. Evidence to support that contention may be a little inexact. Multiple factors will come into play, even if the price of the product is not in issue. The infringing product may have aesthetic differences, which means that the customer would not have purchased the original product, because they liked it less than the infringing one. The courts will then have to weigh up the evidence and make an approximation of how many sales were lost by the right holder. The drawing of proper conclusions from conflicting evidence concerning the amount of a reasonable royalty, has been said to call for the exercise of judicial discretion by the US District Court.⁷⁸⁹ Whilst lost sales are based on actual documentary evidence, not the hypothetical negotiation and agreement under the user principle, the leading US case of *Georgia-Pacific Corp. v United States Plywood Corp.*⁷⁹⁰ sets out a comprehensive list of 15 factors that are relevant, in general, to the determination of the amount of a reasonable royalty for a patent licence and these include the royalties received by the patentee for the licence of the product in issue; the licensor's established policy and marketing program to maintain his patent monopoly by not licensing others to use the invention or by granting licences under special conditions to maintain his monopoly; the commercial relationship between the parties, such as whether they are operating out of the same territory, in the same line of business; the duration of the patent and the term of the licence and the established profitability of the product, its commercial success and current popularity.⁷⁹¹ Whilst it is not suggested that this list of factors is applicable to assessing lost sales in UK IP infringement cases, the list indicates the factors that may shape the commercial success and viability of a protected product and show the difficulty in obtaining damages commensurate with the effort that was put into the commercialisation of the product and which may best be compensated with some form of punitive award.

In the UK, the current state of the law on damages is found in *Gerber Garment Technology v Lectra*.⁷⁹² The calculation can be undertaken in the following ways: Where the IP owner is a manufacturer and for those sales the owner can demonstrate that it would have made, absent the infringement, damages are assessed by

⁷⁸⁹ *General Motors Corp. v Dailey*, 93 F.2d 938, 942 (6th Cir. 1937).

⁷⁹⁰ *Georgia-Pacific Corp. v United States Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), at 1120.

⁷⁹¹ *Georgia-Pacific* (n 790) for the full list of factors

⁷⁹² *Gerber* (n 56).

establishing the profits lost as a result of the infringement. For sales made by the defendant that the IP owner would not have made itself, the owner is entitled to a reasonable royalty. Were the IP owner an originator and licensor only, the damages are assessed by the royalty that would have been earned from the IP. In order to claim a loss of profits, a legal nexus is required between the infringement and the damage suffered by the claimant, which will be established by means of causation and foreseeability. In broad terms, the causation test outlined by the case law, can be stated as: was the loss of profit claimed by the claimant caused by the defendant's infringement and was the loss a foreseeable consequence of that infringement? The claimant is entitled to a reasonable royalty in respect of the infringement if he fails to prove causation. The courts regard this as a minimum recovery to which he is entitled because of the invasion of his legal monopoly. The relevant factors to be considered in assessing causation will include for example, capacity to manufacture the infringed products, because if the IP owner is unable to manufacture the total volume allegedly lost as a result of the infringement, then it may be arguable that he would not have made the additional sales. Conversely, it may be possible to argue that the extra capacity would have been available by subcontracting a part of the manufacturing or by acquiring extra machinery and personnel. In *Gerber v Lectra*, the court found that the IP owner's determination of lost profits as a result of the infringement, required a consideration of reasonable probability rather than fact. As such, rather than attempt to identify individual sales that were lost as a result of the infringement, the court awarded a percentage of total sales achieved by the infringer, on the basis that the claimant has lost a chance of making sales to the relevant buyers. This was a commercially sensible decision. If the claimant had a 40% chance of making each sale, an analysis of individual sales would conclude that he would have made no sales. An analysis of the whole, however, would conclude that he would have made 40% of the sales. Such an approach may not be appropriate in every case, but it is based on informed judgement as to sales that would have been made without the infringement. It is similar to the market share approach in the US. However, proving lost profits is onerous and has unpredictable results. A safer approach is the alternative of an account of profits or a reasonable royalty. The *Gerber* judgement also aligned the UK with the US, by extending the damages recoverable to the lost profits arising from the commercial effect of the infringement of a patent rather than just the activities

covered by the scope and period of the patent. This includes losses on convoyed sales, sales of unpatented ancillary items made as a result of the sales of the patented product, such as servicing and spare parts. It also includes springboard sales, those sales made by an infringer after the expiry of the patent, that it would not otherwise have made, except for the gaining an illegal head start in the market by infringing.

Other factors accepted in the UK as relevant in assessing the quantification of damages include marginal or incremental profits, where lost profits are calculated by deducting the marginal or incremental cost of producing each of the additional units lost as a result of the infringement. An example of this is where fixed costs such as factory overheads, which would have been incurred regardless of the infringement, can be ignored in calculating the lost profits claim. The court will also take price erosion into account, as the sales of infringing products can frequently lead to lower prices for the patented products, since these two products are now in competition with each other. Establishing the hypothetical price at which the patented products would be sold, but for the existence of infringing products in the market place, is not straightforward, as many factors relating to the infringing products may cause prices for the patented products to fall, so establishing price erosion is subject to much complexity.

The main purpose of lost profits is compensatory, they are intended to put the right holder back in the position that they would have been in, but for the infringement. They differ from an account of profits, or disgorgement of profits, which may serve other purposes such as deterrence and recapturing wrongful gains. In cases, for example, where the right holder is seeking damages based on sales lost due to the infringer's sales of its own competing products or services, or price erosion, the right holder must prove causation, showing that they would have made the sales that the infringer actually made, or for price erosion, that the right holder's actual sales would have been made at a higher price but for the infringement and would have resulted in a higher profit margin. Therefore, the lost profits inquiry requires a hypothetical reconstruction of the market at it would have existed 'but for' the infringement.⁷⁹³

⁷⁹³ Christopher B. Seaman, Thomas F. Cotter, Brian J. Love, Norman V. Siebrasse and Masabumi Suzuki, *'Lost Profits and Disgorgement'* (Cambridge University Press 2019) 2.

Seaman *et al*⁷⁹⁴ have compared the US and Commonwealth jurisdictions and their approach to awarding lost profits. In the US such an award is not presumed, with the right holder, or patentee, as the case law focuses mainly on patents, required to show a reasonable probability that ‘but for’ the infringement, they would have made the sales that were made by the infringer, which is most commonly achieved, using the four factor *Panduit* test,⁷⁹⁵ a useful, but non-exclusive method of establishing the patentee’s entitlement to lost profits.⁷⁹⁶ *Panduit*, requires the patent owner to prove (1) the demand for the patented product, (2) the absence of acceptable non-infringing substitutes, (3) his manufacturing and marketing capability to exploit the demand and (4) the amount of the profit that he would have made. Factors (1) to (3) have been described as proxies to establish causation in fact, on the basis that it is necessary to prove: that demand for the patented product demonstrates that at least some consumers would have preferred the original product because of the patented technology; whether consumers would have been willing to substitute a non-infringing alternative for the original product; and whether the patentee would have been able to increase production in order to make at least some of the sales that the infringer actually made. The fourth factor, encompasses the ‘but for’ market reconstruction, which is what would have been the patentees profits absent the infringement. This is seen as a relatively demanding element, requiring ‘reliable economic proof of the market’ that would have developed ‘but for’ the infringement, to establish the amount of lost profits with sufficient accuracy.⁷⁹⁷ The US also allows for the recovery of other foreseeable profits, which may include the price erosion losses, lost sales of unpatented products sold by the right holder, which directly compete with the infringing product and lost sales of unpatented components and products that are ‘functionally associated’ with the patented item. Further, if the right holder can prove entitlement to lost profits for only some of its lost sales, it can recover a mixed award of lost profits on some sales and an established or reasonable royalty on other sales.⁷⁹⁸

⁷⁹⁴ Seaman, Cotter and others (n 793).

⁷⁹⁵ See *State Indus. Inc v Mor-Flo Indus. Inc* (Fed. Cir. 1989, p 1577) (US) referring to *Panduit* as the ‘standard way of proving lost profits’, quoting *Panduit Corp. v Stahl Bros. Fibre Works Inc.* (6th Cir. 1978) (US).

⁷⁹⁶ *Mentor Graphics Corp. v EVE-USA Inc.* (Fed. Cir. 2017, p 1284).

⁷⁹⁷ Seaman, Cotter and others (n 793).

⁷⁹⁸ Seaman, Cotter and others (n 793).

A study by Pricewaterhouse Coopers found that lost profits alone represented only 26 per cent of patent damages awards from 1997 to 2006, compared to 60 per cent of awards based on a reasonable royalty,⁷⁹⁹ with price erosion claims being almost non-existent in recent years. It appears that lost profit awards are increasingly uncommon in the US and there is a trend towards reliance on the more flexible reasonable royalty approach, which relies less on factors such as the onerous *Panduit* requirements and avoids the need to disclose detailed financial information regarding its business to a competitor and which may result in an award, at least as large with the reasonable royalty.⁸⁰⁰ One significant divergence between the US and the UK (and Australia) is that the UK may decline to award damages, including lost profits, to an infringer without the requisite knowledge, whereas in the US direct patent infringement is a strict liability offence, with damages being awarded against even an innocent infringer. In the UK, lost profits are less common than in the US, and the UK has rejected loss based upon non-infringing alternatives⁸⁰¹ whereby, even if the infringer could compete against the right holder just as effectively, by offering a non-infringing alternative to the patented product, the right holder would have lost just as many sales and therefore profits, absent the infringement, as he has not lost any profits caused by the infringement, since he would have lost those profits anyway.⁸⁰²

A recent UK case which reiterated the applicable law, is *Original Beauty Technology Company Limited & Ors v G4K Fashion Limited & Ors*.⁸⁰³ The case is better known for its award of additional damages, which will be considered in the next section of this chapter, but it provided a useful recollection of the legal tests to be applied in awarding damages. The principles, as summarised by Kitchin J (as he then was), in *Ultraframe (UK) Limited v Eurocell Building Plastics Limited and Anor*⁸⁰⁴ were repeated

⁷⁹⁹ Berry, Chris, Arad, Ronen, Ansell, Landan, Cartier, Meredith & Lee, HyeYun 2017. *2017 Patent Litigation Study: Change on the Horizon?* PricewaterhouseCoopers. www.pwc.com/us/en/forensic-services/publications/assets/2017-patent-litigation-study.pdf.

⁸⁰⁰ Seaman, Cotter and others (n 793).

⁸⁰¹ *United Horse-Shoe & Nail Co. v John Stewart & Co*, (HL 1888)(UK).

⁸⁰² Seaman, Cotter and Others (n 793).

⁸⁰³ *Original Beauty* (n 460).

⁸⁰⁴ *Ultraframe* (n 55) [47]. Damages are compensatory and as far as possible they should be a sum of money that will put the claimant in the same position he would have been in, if he had not sustained the wrong; the claimant can recover loss that is foreseeable, caused by the wrong, and not excluded from recovery by public or social policy; it is not enough that the loss would not have occurred but for the tort, the tort must be, as a matter of common sense, a cause of the loss. The burden of proof rests on

by Deputy High Court Judge, David Stone, in this design infringement case, which involved the defendants having been found liable for the infringement of seven of the claimant's unregistered design rights in their luxury bandage and popular body con dresses. The principles set out below⁸⁰⁵ were expanded upon in *SDL Hair*⁸⁰⁶ by Hacon HHJ, who cited them again in *AP Racing Limited v Alcon Components Limited*⁸⁰⁷ and which were cited by Judge Stone.⁸⁰⁸ The parties in *Original Beauty* invited the judge to apply the *Allied Maples*⁸⁰⁹ two stage approach to assessing lost profit damages. That approach was (a) On the balance of probabilities, have the claimants suffered some loss under the head claimed? If the answer is yes, the court goes on to apply (b) On the basis of the available evidence, how much loss has been sustained? The court accepted the claimant's approach, which was that it did not matter, whether at the initial stage, the court was 51 per cent sure, or 100 per cent sure that some loss had been sustained, the only matter for the court is finding a figure to compensate for the head of loss, which it has already found to have been sustained.⁸¹⁰ The starting point is establishing an actionable head of loss, which may be the loss of a chance, or that on the balance of probability, the claimant would have traded more profitably at stage one and with a larger fund, also at stage two. In quantifying the loss, where that involves a hypothetical exercise, the court does not apply the same balance of probability approach as it would to proof of past facts. Rather, it estimates the loss by

the claimant and damages are to be assessed liberally. It is irrelevant that the defendant could have competed lawfully. Where a claimant has exploited a patent by manufacture and sale, he can claim (a) lost profit on sales by the defendant that he would otherwise have made, (b) lost profit on his own sales to the extent that he was forced by the infringement to reduce his own price and (c) a reasonable royalty on sales by the defendant which he would not have made. As to lost sales, the court should form a general view as to what proportion of the defendant's sales the claimant would have made and the assessment of damages for lost profits should take into account the fact that lost sales are of extra production and that only certain specifically extra costs (marginal costs) have been incurred in making the additional sales. Nevertheless, in practice costs go up and so it may be appropriate to temper the approach somewhat in making the assessment. The reasonable royalty is to be assessed as the royalty that a willing licensor and willing licensee would have agreed. Where there are truly comparable licences in the relevant field these are the most useful guidance for the court as to the reasonable royalty. Another approach is the profits available approach, which involves an assessment of the profits that would have been available to the licensee, absent a licence and apportioning them between the licensor and the licensee. Where damages are difficult to assess with precision the court should make the best estimate it can, having regard to all the circumstances of the case and dealing with the matter broadly, with common sense and fairness.

⁸⁰⁵ *Ultraframe* (n 55) [47].

⁸⁰⁶ *SDL Hair* (n 672) (Hacon HHJ), citing *Allied Maples* (n 66) 1609-1610.

⁸⁰⁷ *AP Racing Limited v Alcon Components Limited* [2016] EWHC 116 (IPEC).

⁸⁰⁸ *Original Beauty* (n 460) [72].

⁸⁰⁹ *Allied Maples* (n 66).

⁸¹⁰ See also *Parabola* (n 682) [23].

making the best attempt it can to evaluate the chances, great or small (unless those chances equate to no more than remote speculation), taking all significant factors into account.⁸¹¹ This stage of the exercise may be artificial and difficult, because the court is called upon to make findings about what would have occurred in a hypothetical world, in which the defendants had not infringed. The court's task is therefore to do the best job that it can, with the material that the parties have put before it. 'The ultimate process is one of judicial estimation of the available indications.'⁸¹² In short, one cannot expect much in the way of accuracy when the court is asked to re-write history.⁸¹³ The judgement set out the calculations for the damages at [87]-[103] of the judgment and it was also reiterated that damages on the basis of a reasonable royalty can only apply to any sales that have not been compensated for as lost sales.⁸¹⁴

As the case law indicates, assessing lost profits and lost sales, involves a mixture of detailed analysis of the evidence, coupled with the broad brush approach taken by the courts, which is artificial and based upon hypothetical scenarios. The result, however arduous it is to arrive at, is compensatory in nature and bears no punitive element or deterrent effect. It merely compensates the right holder for what he has lost. This approach is increasingly uncommon in the US, where the hypothetical royalty negotiations are utilised more often. In the UK however, since the 2010-2013 reforms undertaken at the Patents County Court, now the IPEC, the number of cases listed for an inquiry into damages appears to have risen. This may be partly due to the cap on damages and recoverable costs and the reduction in the complexity of IP litigation, due to active court management.

4.10 *Non-economic loss*

Non economic loss in IP law includes damage to reputation or moral prejudice and differs to economic losses, such as lost profits or royalty fees, as discussed above.⁸¹⁵

⁸¹¹ *Original Beauty* (n 460) [74] [75].

⁸¹² *General Tyre* (n 9) [826].

⁸¹³ *Original Beauty* (n 460) [76].

⁸¹⁴ *Original Beauty* (n 460) [106].

⁸¹⁵ For a full discussion on financial damages for non economic loss, see generally; Harry Zavos, *Monetary Damages for Non Monetary Losses: An Integrated Answer to the Problem of the Meaning, Function and Calculation of Non Economic Damages*, 43 Loy. L.A.L. Rev. 193, 210-11 (2009).

Punitive damages have sometimes been classified as a type of non economic damages, although some commentators have disagreed with that theory.⁸¹⁶ The distinguishing characteristic of economic harms is that they have some objective market value, an award which restores the victim to the same financial position it would have occupied without the infringement, whilst non economic harms, by contrast, are those which do not have an objective market value and for which a monetary award is never entirely restorative; put another way, these harms are in some sense incommensurable with financial losses. Damages for non economic harm, therefore, are not compensatory in the same sense as are damages for economic harm, but, when available, they provide some way of validating the plaintiff's loss and forcing tortfeasors to internalise a greater share of the harm they cause.⁸¹⁷ Cotter notes that certain bodies of IP law, such trade marks, the right of publicity and the 'moral rights' branch of copyright in particular, are intended, in part, to protect the reputation of the right holder and as a result, courts in the US have awarded damages to compensate for reputational injury in trade mark and publicity cases, as well as the occasional copyright or patent case.⁸¹⁸ The EU permits monetary awards for non economic loss in IP cases, by virtue of Article 13(1)(a) of the Enforcement Directive 2004/48/EC, as explored in Chapter Three, which has resulted in awards for moral prejudice, which can include reputational harm and mental anguish.⁸¹⁹ Fox *et al*⁸²⁰ identifies moral prejudice as damage to the reputation of the author of a work, which constitutes a component of the prejudice actually suffered by the right holder.

An interesting case has recently been decided in the US, where the court declined to award compensatory damages for economic loss, but awarded statutory damages as a deterrent, for non economic harm. In *Castillo*,⁸²¹ which is the subject of discussion by

⁸¹⁶ See David D. Robertson, *Punitive Damages in American Maritime Law*, 28 J. Mar. L. & Com. 73, 80-83 (1997).

⁸¹⁷ See Dan D. Dobbs & Caprice L. Roberts, *Law of Remedies* § 3.1, at 216 (3rd ed. 2018); Restatement (Second) of Contracts § 353 cmt. A (Am. L. Inst. 1981).

⁸¹⁸ Thomas F. Cotter, *Damages for Non Economic Harm in Intellectual Property Law* (April 2021), *Hastings Law Journal*, Vol. 72:1055.

⁸¹⁹ Case C-280/15, *Nikolajeva v Multi Protect OU*, (ECLI:EU:C:2016:467) 20, 57, defining *moral prejudice* as including 'mental suffering.'

⁸²⁰ Nicholas Fox, Bas Berghuis, Ina Vom Feld & Laura Orlando, *Accounting for Differences: Damages and Profits in European Patent Infringement*, 37 E.I.P.R. 566, 566-73 (2015); Xavier Seuba, *The Global Regime for the Enforcement of Intellectual Property Rights* (Cambridge University Press 2017) 260-61

⁸²¹ *Castillo v G & M Realty L.P.*, 950 F.3d 155 (2nd Cir.), cert denied, 141 S. Ct. 363 (2020).

Richard Chused,⁸²² the plaintiff's were artists who created graffiti art with aerosol spray, while the defendants consisted of a real estate developer and four of its corporations. The defendants had permitted the plaintiff to 'tag' a building in Long Island City, New York, which they owned and which the arts community knew as 5Pointz. On learning that the defendant intended to demolish the building to build housing, the plaintiffs made a claim under the U.S. Copyright Act, known as the Visual Artists Rights Act (VARA), which confers artists with a moral right of integrity, which consists of the right 'to prevent any intentional distortion, mutilation, or other modification...which would be prejudicial to his or her honour or reputation' and to prevent any destruction of a work of recognised stature.⁸²³ The court declined to award a preliminary injunction and the defendants whitewashed the exterior of 5Pointz, thereby destroying the plaintiff's art work, before the demolition took place. The court accepted that the plaintiff's art work had attained recognised stature, with the court having to assess the appropriate damages for the harm. Cotter sought to answer the question of what constituted the 'harm'⁸²⁴ for which compensation is sought? Is it the 'economic' value of the destroyed works themselves, or does it include the subjective mental distress that artists suffer when their works are destroyed or mutilated? Does the statute contemplate that artists should recover damages reflecting the objective harm to their 'honour or reputation?' Further, how can such harms be quantified? The court refused a compensatory or 'actual' damages award, but entered judgement for 'statutory damages' in the amount of \$150,000 per work, largely for deterrent rather than compensatory purposes.⁸²⁵ Cotter argues that such an award may well have been justified on the facts of the case, but in other cases, the need for deterrence is less salient.⁸²⁶ He asks whether statutory damages are a reasonable substitute for actual damages and are there any guidelines that the courts should follow in determining their amount? He acknowledges that unlike the US, statutory damages are not an option (in line with the UK), so asks how the courts should proceed in such circumstances. It is worth considering how his conclusions could affect awards for moral prejudice under the Enforcement Directive.

⁸²² Richard Chused, *Moral Rights: The Anti-Rebellion Graffiti Heritage of 5Pointz*, 41 Colum. L.J. & Arts 583 (2018).

⁸²³ 17 U.S.C. §§ 106A(a)(3)(A)-(B).

⁸²⁴ Cotter (n 818) 1061-1062.

⁸²⁵ *Castillo* (n 821).

⁸²⁶ Cotter (n 818) 1061-1063.

Cotter argues that damages for reputational harm would seem appropriate, at least, for those bodies of IP law that are specifically intended to protect reputation, such as trade marks, privacy based publicity rights and moral rights, with damages for emotional distress for the latter two. By contrast, he rules out awarding damages for emotional distress in patent or trade mark cases, even where the proprietor is a natural person,⁸²⁷ as this would undermine the utilitarian thrust of these bodies of law, by elevating the interests of individual inventors or proprietors above the public interest in innovation and competition. The courts should be free to award general damages to protect reputational interests in trade mark infringement actions and reputational and emotional harm in right of publicity and moral rights cases, but that such damages should be modest.⁸²⁸ The caveat to that assertion is that where cases involve willful or malicious infringement, the courts should be allowed to award more substantial relief for recognisable non economic harm, which should take the form of either general damages, the infringer's profits, enhanced or punitive damages, or such as in *Castillo*, enhanced statutory damages.⁸²⁹ Cotter looks to guidelines as a balancing act between the relevant interests of IP owners, while also reducing the risks that awards will be arbitrary and unpredictable, or threaten to deter lawful behaviour or other countervailing interests.

Cotter proposes a small set of factors based on *Castillo* and other cases, to guide the courts in setting the appropriate amount of an award.⁸³⁰ These will be considered by analogy with UK law. This chapter has considered *Wrotham Park* damages,⁸³¹ where the courts have regularly awarded negotiation type damages in cases such as trespass, where there is no discernable economic loss and under the Enforcement Directive 2004/48/EC, Article 13(1), the court 'shall take into account all appropriate aspects, such as the negative economic consequences, including lost profits which the injured party has suffered, any unfair profits made by the infringer, and, in appropriate cases, elements other than economic factors, such as the moral prejudice caused to the right

⁸²⁷ Cotter (n 818) 1062-1063.

⁸²⁸ Cotter (n 818) 1062-1063.

⁸²⁹ Cotter (n 818) 1062-1063.

⁸³⁰ Cotter (n 818) 1062-1063.

⁸³¹ *Wrotham Park* (n 742).

holder,' when awarding damages. Whilst the Directive appears to encompass all IP rights, Phillip Johnson suggest that it would not apply to breach of confidence and passing off.⁸³² The case of *Liffers*,⁸³³ which has been discussed above in chapter three, permitted damages to be awarded for moral prejudice, in addition to economic loss, which the claimant had sought in the form of a hypothetical royalty. The CJEU heard an appeal against the appellate court reversing the decision of the court at first instance and determined that the two methods of calculation were mutually exclusive.⁸³⁴ The CJEU concluded that Article 13(1) of the Directive 'must be interpreted as permitting a party injured by an intellectual property infringement, who claims compensation for his material damage as calculated...on the basis of the amount of royalties or fees which would have been due to him if the infringer had requested authorisation to use that right, also to claim compensation for the moral prejudice that he has suffered.

The arguments put forward to support damages for non economic losses are that right holders may not receive what could be considered full compensation, if they are only awarded economic damages. Full compensation included restorative justice and optimal deterrence. Without full compensation, the claimant will not be fully restored and without optimal deterrence, potential defendants will not fully internalise the external harm resulting from their conduct.⁸³⁵ Awards can also provide solace, or at least symbolic recognition, that the defendant has committed a wrong against the claimant, for which atonement is appropriate.⁸³⁶ Conversely, money does not always restore the claimant to the world in which the pain and suffering no longer exists and the optimal deterrence theory falters if awards are so unpredictable or inconsistent, that they induce potential tortfeasors to take excessive precautions.⁸³⁷ Should IP right holders recover a sum in excess of the economic losses, as IP law; trade marks, privacy rights and moral rights in copyright, do appear intended to protect against some harms

⁸³² Phillip Johnson, *Damages in European Law* (n 446), 297

⁸³³ *Liffers* (n 395) [17].

⁸³⁴ *Liffers* (n 395) [6].

⁸³⁵ *Kwasny v United States*, 823 F.2d 194, 197 (7th Cir. 1987) (Posner, J.); Ronen Avraham, *Does the Theory of Insurance Support Awarding Pain and Suffering Damages in Torts?*, in *Research Handbook on the Economics of Insurance Law* 94, 96 (Daniel Swarcvz & Peter Siegelman, ed. Edward Elgar 2015); Richard Craswell, *Instrumental Theories of Compensation: A Survey*, 40 San Diego L. Rev. 1135, 1178-79.

⁸³⁶ *Cotter* (n 818) 1105-6.

⁸³⁷ Joseph H. King, Jr., *Pain and Suffering, Non Economic Damages and the Goals of Tort law*, 57 S.M.U. L. Rev. 163, 163-96 (2004), rejecting further arguments that pain and suffering damages provide consolation or are justified because they enable victims to substitute other pleasure.

to reputation or goodwill and in those cases, economic damages may, to some extent, compensate for reputational harms,⁸³⁸ as sales could be lost by reputational damage. It is also difficult to argue in favour of, or to quantify the harm caused by reputational or moral damages where the claim for damages is brought by the right holder's heirs or deceased or non human entities, as opposed to the living right holder.

The law applicable to the UK, does allow damages for moral prejudice, so it is the measure of those damages that require consideration. As Cotter therefore argues, the desirability of awarding non economic damages, hinges, in part, on the difficulty in measuring them in some reasonably predictable and non arbitrary manner⁸³⁹ and while none of the options are perfect, a few simple principles can serve as rational guideposts for setting damages in a manner that adequately vindicates the right owner's interests and avoids undue risks of over deterrence or third party harms. His recommendations include permitting the courts to award general damages for recognisable non economic harm, but he acknowledges that such damages can be arbitrary and unpredictable, failing to ensure that awards for similar or comparable injuries receive equivalent compensation, leading to the threat of excessive liability, which could over-deter lawful conduct. His response to that, accords with the view of Phillip Johnson,⁸⁴⁰ who has also recommended Guidelines for awarding damages, in a similar way to those used for assessing pain and suffering in personal injury cases. Cotter suggests that the Copyright Office, or a similar agency, develops such a schedule to achieve consistency.⁸⁴¹ Whilst the US has rejected schedules due to their incompatibility with the civil jury system and the issues surrounding the development of appropriate standards for comparison, they would be suitable in the UK, where damages are awarded by an experienced IP judiciary. Bavli argues that comparable case guidance, as distinguished from pre-determined damages schedules, can improve both predictability and accuracy.⁸⁴² The second recommendation from Cotter, is to

⁸³⁸ Cotter (n 818) 1107.

⁸³⁹ Cotter (n 818) 1113.

⁸⁴⁰ Phillip Johnson, *Compounding Uncertainty* (n 18).

⁸⁴¹ Cotter (n 818) 1113.

⁸⁴² Hillel J. Bavli, *'The Logic of Comparable-Case Guidance in the Determination of Awards for Pain and Suffering and Punitive Damages'*, 85 U. Cin. L. Rev. 1, 10-12 (2017). See also, Hillel J. Bavli & Reagan Mozer, *The Effect of Comparable-Case Guidance on Awards for Pain and Suffering and Punitive Damages: Evidence from a Randomised Controlled Trial*, (2019) 37 Yale L. & Pol'y Rev. 405, 455-58, reporting evidence from a randomised controlled trial.

award damages that are not primarily viewed as being compensatory, but which incidentally, serve a compensatory purpose. He uses the analogy of awards based on an account of profits, which compensate for intangible harm to the plaintiff's reputation or goodwill, even though the primary purpose of the disgorgement remedy is to deter misconduct or prevent unjust enrichment. Statutory damages in copyright and enhanced or punitive damages could have a similar effect, even if the remedy is not intended to compensate.⁸⁴³ The relationship between the award and the severity of the non economic harm, may be tenuous and in an account of profit, the gain made by the infringement may be more or less than the right holder's loss. Lost revenue may be a factor in determining statutory damages, but there is no necessary relationship between that loss, the overall amount of statutory damages awarded and the right holder's non economic harm. Further, enhanced damages are a multiple of the right holder's proven actual damages, so they may still only haphazardly represent the extent of the unqualified intangible harm. This is the case even where the court awards the maximum statutory or enhanced damages permitted under the relevant law, as there is no guarantee that such an amount would adequately compensate for the right holder's goodwill, reputation, honour or mental state. In the US, in order to merit an award of enhanced or statutory damages, it is normally necessary to show that the infringement was wilful, a requirement that is probably justified in order to avoid over-detering lawful conduct, but one which limits the extent to which these remedies can indirectly compensate intangible harms.⁸⁴⁴ That risk could be averted by having guidelines for the court to use in the determination of damages with the award being based upon a position on the scale, which does result in over-deterrence, but which provides for an increased award where the infringer is wilful or flagrant.

When Cotter's arguments are placed in the IP context, he supports an award of general damages for acts of trade mark infringement that cause harm to reputation or goodwill, or to author's moral rights, that cause emotional harm or harm to reputation. The justification is that the protection of these non economic interests is central to these bodies of law and avoids the risk of IP owners being under

⁸⁴³ Cotter (n 818) 1055.

⁸⁴⁴ Cotter (n 818).

compensated. However, such damages should be ‘presumptively modest,’⁸⁴⁵ as such awards do not restore the status quo, but act as a symbolic atonement for a wrong and if this is correct, the amount of the award may be of a lesser moment than the fact that *some* award, however symbolic, has been granted.’⁸⁴⁶ As smaller awards would necessarily lie within a fairly small range of amounts, they would be more predictable and less likely to risk over-detering lawful behaviour. The courts should also have the authority to grant more substantial awards for wilful or malicious conduct, when making such awards, because in some cases, there will be more need for symbolic atonement and less need to be concerned about over-deterrence⁸⁴⁷. In those circumstances, the court could grant larger awards, in the form of the infringer’s profits, or enhanced or punitive damages, which is consistent with *Castillo*.⁸⁴⁸ Cotter offers a strong argument for guidelines to assist in the award of such damages. However, he over complicates the issue, with his reference to presumptive modesty in the amount of such awards, or the analogy with the infringer’s profits, or the need for the requisite knowledge. A strong set of guidelines, with factors to assist the court in deciding where on the scale an award should be, would provide a straightforward method of setting the correct sum. In the US, there are six factors which the court should consider in assessing such damages: (1) the infringer’s state of mind; (2) the expenses saved and profits earned, by the infringer; (3) the revenue lost by the right holder; (4) the deterrent effect on the infringer and third parties; (5) the infringer’s co-operation in providing evidence concerning the value of the infringing material; and (6) the conduct and attitude of the parties.⁸⁴⁹ Boiled down to the essentials and restated to focus on non economic harm specifically, the focus for the courts to consider, are (1) the likely severity of the harm; (2) the benefit the defendant derived from the misconduct; (3) the defendant’s overall culpability and (4) the perceived need to deter future conduct. Focusing on these factors will not remove all uncertainty, or render awards entirely predictable, but they should channel the court or the jury’s attention to the relevant aspects of the inquiry and thus reduce the chance of substantial

⁸⁴⁵ Cotter (n 818).

⁸⁴⁶ Cotter (n 818).

⁸⁴⁷ Keith N. Hylton, *Punitive Damages and the Economic Theory of Penalties*, 87 GEO. L.J. 421, 445 (1998).

⁸⁴⁸ Cotter (n 818) 1055, and *Castillo* (n 821).

⁸⁴⁹ Cotter (818) 1116.

error.⁸⁵⁰ These factors should apply to awards of damages, regardless of whether the loss is economic or non economic. The defendant's knowledge should be just one factor, which goes to the level of the award, rather than be a determining factor in whether a certain remedy is, or should be available.

The case law on moral prejudice remains sparse in the UK⁸⁵¹ so there is little guidance as to how the courts approach any such assessment, beyond plucking a figure out of thin air. It remains to be seen whether the courts will have the opportunity to be tasked with the challenge of setting out guidelines within a suitable case, in the future, should such a case come before the IPEC. Until that time arrives, damages for moral prejudice will not provide a basis to enhance an award of damages to the extent that it offers a deterrent effect, as the awards remain haphazard, relatively nominal and uncertain in their scope.

4.11 *Conclusion*

This chapter has considered the compensatory damages that are available in the UK for copyright infringement. The actual damages awards do not provide sufficient deterrence, as the infringer would be unlikely to have to pay compensation that exceeds what would be payable under the usual licence fee. They therefore lack a punitive element. An account of profits will have the effect of depriving the infringer of the unjust enrichment that he would otherwise gain from his infringing activities, but it is often very difficult for the right holder to prove the actual loss with accuracy and it can be a costly exercise. Having explored the existing domestic regime of compensatory damages, it is now necessary to examine the existing domestic regime of punitive damages and to explore the concept as it has been traditionally understood in the UK and to compare how the case law has evolved in the courts, to the extent that awards of damages for copyright infringement are now accepted as being able to be wholly or partly punitive.

⁸⁵⁰ Cotter (n 818) 1117.

⁸⁵¹ *Wirex* (n 399) (Hacon HJJ) [19].

Chapter Five

Domestic Legal Framework – Punitive, additional and aggravated damages

5.1 *Introduction*

The UK has been under no obligation to provide a regime of pre-established or punitive damages for IP infringement and has not traditionally done so. This has resulted in an award of damages failing to have a sufficiently punitive element to successfully deter infringement. The TRIPS Agreement opened the door to the prospect, by permitting pre-established damages for unknowing infringement.⁸⁵² This has been seen as akin ⁸⁵³ to providing punitive damages, which many States do not wish to embrace. However, Gervais argues that punitive damages are entirely consistent with the TRIPS objectives of effectiveness and deterrence in the awarding of general damages.⁸⁵⁴ The Enforcement Directive 2004/48/EC, whilst not mandating pre-established damages, permits them under Article 13(2), whilst the ill fated ACTA, mandated them,⁸⁵⁵ and had the Agreement come into force, Member States would have had to provide for one or more, of pre-established damages; presumptions for damages or additional damages, with the courts or right holders being able to select them over general damages or an account of profits. The UK has provided for additional damages under section 97(2) of the CDPA 1988, with the court being required to consider all the circumstances of the case, having particular regard to flagrancy and the benefit of the infringement to a defendant. These principles were summarised by Proudman J in *Flogas Britain Ltd v Calor Gas Ltd*,⁸⁵⁶ (1) flagrancy includes some degree of scandalous or deceitful conduct which includes deliberate and calculated infringement; (2) benefit implies pecuniary advantage in excess of mere damages, but must be interpreted widely and not just in financial terms; (3) deliberate acts are not essential, as carelessness (to the extent of couldn't care less) could be sufficient; (4) knowledge of infringement is immaterial and (5) awards must be capable

⁸⁵² TRIPS art 45(2).

⁸⁵³ Stoll and Others (n 266) 723.

⁸⁵⁴ Gervais, *TRIPS Drafting History* (n 264) 582.

⁸⁵⁵ Anti-Counterfeiting Trade Agreement 2010 (ACTA), art 9(3)(a), 9(4).

⁸⁵⁶ *Flogas Britain* (n 278) [131] [135].

of doing justice in a particular case. Factor (1) appears contradictory to factors (3) and (4), as the reference to ‘deliberate and calculated infringement,’ contrasts with the assertion that knowledge of infringement is immaterial and deliberate acts are not essential. This case provides an example for why clarity in drafting damages provisions, especially punitive damages, is essential.

Section 97(2) of the CDPA 1988 appears to allow for a higher threshold of compensatory damages, than that encapsulated by the *General Tyre* case, especially as the Enforcement Directive seeks to pursue deterrence as one of its objectives. Additional damages can include a punitive element, but should not seek only to punish. Deterrent damages may be used in appropriate circumstances, if the situation is especially egregious.⁸⁵⁷ *General Tyre v Firestone* may appear to be limited in its scope, since the Enforcement Directive has applied to the awards of damages for IP infringement, given that the damages are now required to be effective, proportionate and dissuasive, addressing actual and moral prejudice as the case requires. There can be little dissuasion in being ordered to pay a royalty fee, which would be the case had the infringer sought permission to use the right holders products. Questions have been raised about the present formulation of damages, taking into account Article 13(2) of the Enforcement Directive.⁸⁵⁸ It should be considered to what extent, the *General Tyre* formulation of compensation will compensate for *actual prejudice*? Does dissuasion require a punitive element in awarding damages? In the UK, punitive damages come under the umbrella of additional damages and are awarded as such, as the case of *Absolute Lofts* has shown.⁸⁵⁹ This Chapter will consider the concept of punitive damages and then go on to assess the situation in the UK and its approach to punitive, additional and aggravated damages framework. Thereafter, it will consider case law, such as *Absolute Lofts*, to assess how the courts have approached the concept of additional and punitive damages.

⁸⁵⁷ See *Nottinghamshire NHS Trust* (n 493); *PPL v Reader* (n 280) [15] for examples where punitive damages have been considered.

⁸⁵⁸ Caddick Q.C., Gillian Davies and Gwilym Harbottle (eds), *Copinger and Skone James on Copyright*, (18th ed. Sweet & Maxwell 2021) 21-71.

⁸⁵⁹ *Absolute Lofts* (n 497).

5.2 *The concept of punitive damages*

In 2018, an Empirical Study of Punitive Damages was published by Goudkamp and Katsampouka,⁸⁶⁰ which reported and discussed the results of an empirical study of punitive damages. It examined 146 claims that were decided across the UK, (except for Scotland, which does not recognise punitive damages), by first instance courts, between 2000 and 2016. The study was the first of its kind to be conducted in the UK and it uncovered important evidence regarding punitive damages. The most significant findings included that (1) punitive damages, when claimed, are awarded reasonably regularly, (2) that the average award of punitive damages is relatively modest, (3) that there is considerable uniformity in terms of the size of punitive damages awards and (4) that actions for defamation are unlikely to constitute an important source of punitive damages awards.⁸⁶¹ This study contrasts with a US study in 2010⁸⁶² which found that studies have consistently shown that punitive damages are rarely awarded, with rates of about three to five percent of plaintiff trial wins. Awards were most frequent in cases of intentional tort, with a punitive award rate of over 60%. Greater harm corresponded to a greater probability of an award; the size of the compensatory award was significantly associated with whether punitive damages were awarded, with a rate of approximately 60% for cases with compensatory awards of \$1 million or more.⁸⁶³ This would suggest such awards had a deterrent goal, with awards highest where there was intent and a greater level of harm.

Punitive or 'exemplary' damages are money damages awarded to a claimant in a private civil action, in addition to and apart from, compensatory damages, assessed against a defendant guilty of flagrantly violating the claimant's rights. The purpose of such damages are said to be (1) to punish the defendant for outrageous misconduct and (2) to deter the defendant and others from similarly behaving in the future.⁸⁶⁴

⁸⁶⁰ James Goudkamp and Eleni Katsampouka, 'An Empirical Study of Punitive Damages', *Oxford Journal of Legal Studies*, Vol. 38, Issue 1, Spring 2018, 90-122.

⁸⁶¹ Goudkamp & Katsampouka (n 860) 90.

⁸⁶² Theodore Eisenberg, Michael Heise; Nicole L. Waters and Martin T. Wells, 'The Decision to Award Punitive Damages: An Empirical Study,' (2010) *Cornell Law Faculty Publications*, Paper 185. <http://scholarship.law.cornell.edu/facpub/185>.

⁸⁶³ Eisenberg, Heise and others (n 862) 185.

⁸⁶⁴ David G. Owen, *A Punitive Damages Overview: Functions, Problems and Reform*, 39 Vill. L. Rev. 363 (1994), at 364.

Punitive damages are, in a real sense, ‘quasi-criminal,’ standing halfway between the civil and criminal law. They are ‘awarded’ as ‘damages’ to a claimant against a defendant in a private lawsuit; yet the purpose of such assessments in most jurisdictions is explicitly held to be non-compensatory and in the nature of a penal fine. Because the gravamen of such damages is considered civil, the procedural safeguards of the criminal law, such as the beyond reasonable doubt; burden of proof and prohibitions against double jeopardy, excessive fines and compulsory self-incrimination, generally are held not to apply. This strange mixture of criminal and civil law objectives and effects, creating a form of penal remedy, inhabiting, some would say, invading, the civil law domain, assures that controversy and debate follow such assessments wherever they may roam, as surely as summer follows spring.⁸⁶⁵

Punitive damages have a deep history in the law,⁸⁶⁶ with their early ancestor being the doctrine of multiple damages, a form of punitive damages measured according to scale. Such damages were provided for in Babylonian law, nearly 4000 years ago in the Code of Hammurabi, the earliest known legal code.⁸⁶⁷ The very basis of Roman civil law, beginning with the Twelve Tables of 450 B.C. was punitive in nature and several provisions in classical Roman law prescribed double, treble and quadruple damages.⁸⁶⁸ The first English provision for multiple damages was enacted by Parliament in 1275: ‘Trespassers against religious persons shall yield double damages.’⁸⁶⁹ Including this statute, Parliament enacted at least 65 separate provisions for double, treble and quadruple damages between 1275 and 1753.⁸⁷⁰ Exemplary damages were explicitly authorised in England in *Huckle v Money*.⁸⁷¹ The doctrine was promptly transported to the US, where an award was allowed in *Genay v Norris*⁸⁷² and by the mid-nineteenth century, punitive damages had become an established fixture in US law.⁸⁷³ The

⁸⁶⁵ Owen (n 864) 365-366.

⁸⁶⁶ See Ellis D. Dorsey, Jr. *Fairness and Efficiency in the Law of Punitive Damages*, 56 So. Cal. Rev. 1, 12-20 (1982); Tracing the English history of such awards.

⁸⁶⁷ G. Driver & J. Miles, *The Babylonian Laws* 500-01 (1952).

⁸⁶⁸ See W.W. Buckland, *A Text Book of Roman Law*, 581-84 (3d rev. Stein ed. 1966); W.W. Buckland & A. McNair, *Roman Law and Common Law*, 344-45 (2d rev. Lawson ed. 1965).

⁸⁶⁹ Synopsis of Statute of Westminster I, 3 Edw., ch 1(Eng) in 24 Great Britain Statutes at large 138 (Pickering Index 1761).

⁸⁷⁰ F. Pollock & F. Maitland, *The History of the English Law* 522 (2 ed. 1899) referring to these multiple damages provisions as ‘penal’ and ‘exemplary’ damages.

⁸⁷¹ *Huckle v Money*, 95 Eng. Rep. 768 (K.B. 1763).

⁸⁷² *Genay v Norris* I.S.C. 3, 1 Bay 6 (1784).

⁸⁷³ Owen (n 864) 368-369.

doctrine of punitive damages truly is an ancient legal concept that inexplicably has evaded commitment to the archives of history⁸⁷⁴ and it has been argued that responsible jurisprudence argues forcefully in favour of relegating this legal dinosaur to an era that has long since passed.⁸⁷⁵ The English courts prior to the Eighteenth Century upheld jury verdicts that exceeded the plaintiff's actual physical harm⁸⁷⁶ and they have long been used as damages for compensation for a claimant's ethereal injuries such as hurt feelings, humiliation, wounded dignity, mental anguish and embarrassment, which the courts during the formative stages of the common law, were reluctant to recognise as compensable injuries.⁸⁷⁷ Punitive damages therefore, performed the task of compensating claimants for elements of personal harm that otherwise were unrecoverable.⁸⁷⁸ As the last chapter has shown in relation to moral prejudice and damage to reputation, this practice has continued. Sales and Cole argue that the ambit of compensatory damages has expanded rapidly over recent years, to include an entire spectrum of actual and ethereal injuries and therefore, the legal rationale that punitive damages serve a compensatory function has ceased to exist, with critics arguing that the lack of a viable compensatory rationale makes punitive damages an anachronism that is no longer necessary or justifiable.⁸⁷⁹ Conversely, It is noted that civil courts allegedly, can utilise punitive damages to punish more severely, the egregious torts that cause personal harm and that citizens are more likely to institute legal proceedings to protect their rights and enforce the civil law if punitive damages provide an economic incentive to litigate. Sales and Cole argue that once again, because the concept of compensatory damages embraces every conceivable element of tangible and intangible injury, essentially unlimited compensatory damages serve as a more than adequate economic incentive for initiating civil litigation and by purpose and definition, the civil law has historically evolved to compensate and not to punish.⁸⁸⁰

⁸⁷⁴ James B. Sales and Kenneth B. Cole, Jr. *Punitive Damages: A Relic That Has Outlived It's origins*, (1984) 37 *Vanderbilt Law Review* 1117, 1118.

⁸⁷⁵ Sales & Cole (n 874) 1119.

⁸⁷⁶ K. Redden, *Punitive Damages* § 2.2(A)(1) (1980).

⁸⁷⁷ J. Ghiardi & J. Kircher, *Punitive Damages Law and Practice* § 1.02 (1984).

⁸⁷⁸ Sales & Cole (n 874) 1121.

⁸⁷⁹ Sales & Cole (n 874) 1122, 1123.

⁸⁸⁰ Sales & Cole (n 874) 1123.

As previous chapters have attempted to illustrate, the existing compensatory legal structure does not adequately offer deterrence, as its purpose is generally to put the claimant back in the position that they would have been, but for the infringement. The possible exception to this is an account of profits, which aims to deprive the defendant of his illegal gains and unjust enrichment. Many jurisdictions adopt the dual rationales of punishment and deterrence as justifications for their use. Ellis⁸⁸¹ offered seven legal theories in support of the concept of punitive damages, whilst acknowledging that any legal doctrine that is predicated on such a disparate variety of grounds 'may reasonably be suspected of resting on no very firm basis in policy.' He then condensed his seven theories into two fundamental tenets: wrongdoers deserve punishment beyond that which compensatory damages provide and the judicial system needs punitive damages to deter socially harmful, loss creating conduct by defendants.⁸⁸² Sales and Cole conclude that the usual rationale for punitive damages is punishment and deterrence, with a few jurisdictions viewing them as compensation for intangible injuries. They argue strongly against punitive damages, as merely offering a windfall to the plaintiff asserting that compensatory damages are more than adequate.⁸⁸³ The authors do offer factors which they see as necessary if punitive damages are to be used. These factors include the formulation of certain standards of conduct and proof, by which the courts determine punitive damages, such as a stringent showing that a defendant acted with deliberate intent, ill motive or maliciousness; a significantly higher standard of proof than the (US) preponderance of evidence, such as a 'clear and convincing' standard or 'beyond reasonable doubt'; a reallocation of judicial power to judges rather than juries, so that they determine if punitive damages are merited and in what amount; establishing specific limits for punitive damages awards; modifying the application of the punitive damages doctrine significantly in strict tort liability for product litigation; exemplary damages permitted and recovered should be payable to state treasuries like fines; if punitive damages continues to survive their archaic origins, courts should declare that insurance coverage contravenes public policy, in order to protect innocent purchasers of insurance who suffer increased policy

⁸⁸¹ Ellis, *Fairness and Efficiency in the Law of Punitive Damages*, (1982) 56, S. Cal. L.Rev. 1, 12-13.

⁸⁸² Ellis (n 881) 11.

⁸⁸³ Sales & Cole (n 874) 1164.

premiums and finally, the appellate courts must initiate a more aggressive and standardised attitude in reviewing exemplary awards.⁸⁸⁴

These recommendations would have less impact in the UK, as awards of damages for IP infringement are made by experienced IP judges in the specialist IPEC court. If damages were payable to the state, they would be no different to criminal fines and would not cover situations such as loss on the basis of moral prejudice or reputation, which should be payable to the claimant. The extension of knowledge to the criminal standard would not be necessary, as knowledge and flagrancy were factors applicable to the level of the award, rather than the type of damages available.

5.3 *Punitive damages in the UK*

In the UK, the historical basis for awarding damages has been compensatory, rather than punitive. The courts have awarded additional damages, but in the English courts, such damages for copyright infringement have been unclear in their normative basis, inconsistent when they have been awarded and with esoteric assessments on quantum.⁸⁸⁵ This situation contrasts unfavourably with the situation in Australia, where the courts have long had a clear and focused rationale for the award of additional damages, which has gone a long way towards setting consistent standards for when such an award is made; yet the quantum of awards remain equally unpredictable.⁸⁸⁶ This thesis has set out the basis of compensatory damages, in accordance with *General Tyre v Firestone*⁸⁸⁷ and its' expansion with Article 13 of the Enforcement Directive 2004/48/EC. It is necessary to consider the basis for punitive damages in the UK, as exemplary, aggravated and additional damages, in order to assess whether they have a sufficient punitive element to successfully deter infringement.

⁸⁸⁴ Sales & Cole (n 874) 1171-1172.

⁸⁸⁵ Phillip Johnson, Compounding Uncertainty (n 18) 136.

⁸⁸⁶ Phillip Johnson, Compounding Uncertainty (n 18) 136.

⁸⁸⁷ *General Tyre* (n 9).

The distinction between exemplary and aggravated damages has been considered by the judiciary, prior to the decision in the case of *Rookes v Barnard*.⁸⁸⁸ In *Gray v Motor Accident Commission*⁸⁸⁹ a subjective description was given to aggravated damages and an objective description to exemplary damages. Kirby J. stated that 'Aggravated damages were given for conduct which shocks the plaintiff and hurts his or her feelings. Exemplary damages are awarded for conduct which shocks the tribunal of fact, representing the community.' The latter can therefore be seen in the context of a quasi-criminal penalty, but one which is paid to the plaintiff, not the public purse. The distinction was described thus: 'The formal distinction is, I take it, that aggravated damages are given to compensate the plaintiff when the harm done to him by a wrongful act was aggravated in the manner in which the act was done; exemplary damages, on the other hand, are intended to punish the defendant and presumably to serve one or more of the objects of punishment – moral retribution or deterrence.'⁸⁹⁰ The concept of a punitive regime was clearly envisaged by these decisions, with its explicit deterrent basis. Exemplary damages are a form of general deterrence and aggravated damages are a form of specific deterrence.

Rookes v Barnard remains the leading case in English law on punitive damages. The facts of the case are that the claimant was a draughtsman, employed by British Overseas Airways Corporation, who had resigned from his union after a disagreement. His employer and the union had a closed shop agreement and the union threatened a strike unless the claimant also resigned from his job, or was dismissed. BOAC suspended the claimant before subsequently dismissing him and he sued the union officials, including the defendant, on the basis that he was a victim of a tortious intimidation that had used unlawful means, the threatened strike, to induce BOAC to terminate his contract. The claimant succeeded at first instance and although the Court of Appeal overturned that decision, the House of Lords reversed it, finding in favour of the claimant. The main judgment delivered by Lord Devlin set out three situations in which punitive damages can be awarded.⁸⁹¹ These are (1) oppressive, arbitrary or unconstitutional actions by the servants of government, (2) where the

⁸⁸⁸ *Rookes v Barnard* (n 423).

⁸⁸⁹ *Gray v Motor Accident Commission* (1998) 196 C.L.R. 1, at [101].

⁸⁹⁰ *Uren v John Fairfax & Sons*, (1966) 117 C.L.R. 118, at 149, (Windeyer J).

⁸⁹¹ *Rookes v Barnard* (n 423) 1125-1126, (Lord Devlin).

defendant's conduct was 'calculated' to make a profit for himself and (3) where a statute expressly authorises the same. Lord Devlin's second category applies to copyright infringement, by reference to the fact that 'cases in the second category at those in which the defendant's conduct has been calculated by him to make a profit for himself which may well exceed the compensation payable to the plaintiff.'⁸⁹² That suggests knowing infringement, where perhaps, damages calculated on the basis of, for example, the 'user principle,' may fall short of satisfying the claimant's 'actual prejudice' suffered. Lord Devlin's statement⁸⁹³ noted that refusal to recognise the exemplary principle would involve a complete disregard of precedent and statute and he acknowledged that an exemplary award of damages can serve a useful purpose in vindicating the strength of the law and thus affording a practical justification for admitting into civil law a principle which ought logically to belong to the criminal law. He also noted that his three categories could impose limits upon those awards, which did not previously apply, although there was a powerful, albeit not compelling, authority for allowing them on a wider range. Lord Devlin's first category, which applies to the oppressive, arbitrary or unconstitutional action by government servants, does not merely protect the weaker man, where a more powerful individual or corporation uses their power for their own ends, it is applicable only to actions by the servants of the government, because they are also servants of the people, whose power must be subservient to their duty of service. The third category is an obvious one, where the availability of exemplary damages is expressly permitted under specific legislation.⁸⁹⁴

In 1997, the Law Commission, published a Report on Aggravated, Exemplary and Restitutionary Damages,⁸⁹⁵ which discussed Lord Devlin's authoritative analysis in *Rookes v Barnard*.⁸⁹⁶ The Commission noted that aggravated damages remained unclear in their precise meaning and function and were not recognised as a separate category of damages until *Rookes v Barnard*. Prior to that case, aggravated damages were not differentiated from punitive awards, with the courts having used the terms,

⁸⁹² *Rookes v Barnard* (n 423).

⁸⁹³ *Rookes v Barnard* (n 423).

⁸⁹⁴ Where exemplary damages are expressly authorised by statute, there is no need to establish the 'cause of action' test

⁸⁹⁵ The Law Commission, Report on Damages (n 30).

⁸⁹⁶ The Law Commission Report on Damages (n 30) 10.

*punitive*⁸⁹⁷, *exemplary*,⁸⁹⁸ *aggravated*,⁸⁹⁹ *retributory*⁹⁰⁰ and *vindictive*⁹⁰¹, when referring to them.⁹⁰² The Law Commission noted that what Lord Devlin appeared to describe as aggravated damages, were damages awarded for a tort as compensation for the claimant's mental distress, where the manner in which the defendant has committed the tort, or his motives in so doing, or his conduct subsequent to the tort, has upset or outraged the claimant. Such conduct or motive 'aggravates' the injury done to the claimant and therefore warrants a greater or additional *compensatory* sum. The Law Commission still considered that there was continuing confusion in the case law about whether such damages serve a punitive function.⁹⁰³ Lord Devlin extracted those awards which were explicable in compensatory terms and renamed them 'aggravated damages.'⁹⁰⁴ He observed that the previous failure to separate the compensatory element from the punitive element of supposedly punitive awards, or to recognise that many such awards were explicable without reference to punitive principles, was a 'source of confusion.'⁹⁰⁵ The Law Commission rightly acknowledged that it was regrettable that Lord Devlin's analysis has not dispelled the confusion between the two functions of compensation and punishment.⁹⁰⁶ The continuing relevance of the 'exceptional' conduct or motive of the defendant, not just to the assessment, but in addition to the availability of aggravated damages, has led some to doubt their compensatory character.⁹⁰⁷

5.4 Aggravated damages

⁸⁹⁷ *Lavender v Betts* [1942] 2 ALL ER 72, 73H-74A.

⁸⁹⁸ *Huckle v Money* (n 871); *Emblen v Myers* (1860) 6 H&N 54, 158 ER 23; *Merest v Harvey* (1814) 5 Taunt 442, 128 ER 761.

⁸⁹⁹ *Lavender v Betts* (n 897).

⁹⁰⁰ *Bell v Midland Railway Co* (1861) 10 CB (NS) 287, 308; 142 ER 462, 471.

⁹⁰¹ *Emblen v Myers*, *Ibid*, n 855; *Cruise v Terrell* [1922] 1 KB 664, 670; *Whitham v Kershaw* (n 732).

⁹⁰² The Law Commission Report on Damages (n 30) 10.

⁹⁰³ The Law Commission Report on Damages (n 30) 10.

⁹⁰⁴ See James Bailey, 'Aggravated Damages or Additional Awards of Solatium: A Distinction Without a Difference?' (2018) 22 Edin. L.R. 29.

⁹⁰⁵ *Rookes v Barnard* (n 423) 1230, and Law Commission Report on Damages (n 30) 10.

⁹⁰⁶ Law Commission Report on Damages (n 30) 10.

⁹⁰⁷ Aggravated, Exemplary and Restitutionary Damages: A Consultation Paper Law Comm. Consultation Paper 132 (HMSO 1993) (n 13) paras 3.24-3.32; J Stone, 'Double Count & Double Talk: The End of Exemplary Damages?' (1972) 46 A.L.J. 311.

The basis for an award of aggravated damages, is (1) exceptional or contumelious conduct or motive on the part of a defendant in committing the wrong, or, in certain circumstances, subsequent to the wrong, and (2) mental distress sustained by the claimant as a result.⁹⁰⁸ Exceptional conduct covers conduct where the manner in which the wrong was committed, was such as to injure the claimant's proper feelings of pride and dignity, or gave rise to humiliation, distress, insult or pain.⁹⁰⁹ It includes conduct that is offensive or which was accompanied by malevolence, spite, insolence or arrogance and such conduct can lead to recoverable intangible loss.⁹¹⁰ In *Broome v Cassell*⁹¹¹ the House of Lords referred to mental distress, injury to feelings, insult, indignity, humiliation and a heightened sense of injury or grievance.⁹¹² Conduct subsequent to the wrong may give rise to aggravated damages and is evidenced in defamation cases, where the subsequent conduct of the defendant or his legal advisers permits an increase in the level of damages.⁹¹³ This requirement removes the possibility of the recovery of aggravated damages where a claimant is unaware of the defendant's exceptional conduct or motive.⁹¹⁴ Most of the causes of action, or wrongs which attract an award of aggravated damages, are actionable *per se* and involve interference with various types of interest, such as a proprietary interest, involving trespass to land, nuisance, or unlawful interference with business. The Law Commission was clear that aggravated damages are compensatory in nature and compensate a claimant for broadly the mental distress which they have suffered, owing to the manner in which the defendant committed the wrong and should be assessed in a similar way to other forms of 'heads' of damages for non-pecuniary or 'intangible' losses.⁹¹⁵ A useful analogy is perhaps the *Wrotham Park* damages discussed above.

⁹⁰⁸The Law Commission Report on Damages (n 30) 11, contains this analysis which it offered in the Consultation Paper and which has been accepted by the court in *Appleton v Garrett* [1996] PIQR 1,4, (Dyson J), as a summary of the pre-conditions of an award of aggravated damages,

⁹⁰⁹ *Rookes v Barnard* (n 423) (Lord Devlin), 1129-1232.

⁹¹⁰ *Rookes v Barnard* (n 423) (Lord Devlin) 1129-1232.

⁹¹¹ *Broome v Cassell*, [1972] A.C. 1027.

⁹¹² *Broome v Cassell* (n 911) 1085E-1124G.

⁹¹³ See *Sutcliffe v Pressdram* [1991] 1 QB 153.

⁹¹⁴ *Alexander v Home Office* [1988] 1 WLR 968, 976C-D.

⁹¹⁵ The Law Commission Report on Damages (n 30) 15.

There remains confusion about whether aggravated damages have a punitive or quasi-punitive function. 'Aggravated damages serve to *increase* the damages that could otherwise be awarded; and they increase awards *because* of the defendant's conduct. This looks like punishment.'⁹¹⁶ The Court of Appeal expressly recognised the link between exceptional conduct and increased (compensatable) injury, in *Thompson V MPC*⁹¹⁷ where the court stated that 'aggravating damages are awardable where there are: 'aggravating features about the case which would result in the plaintiff *not receiving sufficient compensation* for the injury suffered if the award were restricted to a basic award.' The Court of Appeal however, clearly accepted that aggravated damages were compensatory and that an award of compensatory damages that includes aggravated damages will, incidentally, have some adverse or punitive effect on the defendant who must pay the award and that incidental adverse, or punitive effect should be taken into account when deciding whether exemplary damages should be awarded. (Juries should be told) that: if they are awarding aggravating damages, those damages will have already provided compensation for the injury suffered by the claimant (as a result of conduct by a police officer on the facts of that case) and, inevitably, a measure of punishment from the defendant's point of view. Exemplary damages should be awarded if, but only if, they consider that the compensation awarded by way of basic or aggravated damages is in the circumstances, an inadequate punishment for the defendant.⁹¹⁸ That decision appears to take aggravated damages out of the punitive sphere, which is filled by exemplary damages and to create further confusion. *Clerk and Lindsell on the Law of Torts* (15th edn. 1982)⁹¹⁹ 242-243 distinguished aggravated damages from exemplary damages: 'Where damages are at large the manner of commission of the tort may be taken in to account and if it was such as to injure the plaintiff's proper feelings of dignity and pride may lead to a higher award than would otherwise have been justified...from the defendant's point of view the award may appear to incorporate an element of punishment imposed by the court for his bad conduct, but the intention is to

⁹¹⁶ Law Commission Consultation Paper on Aggravated, Exemplary and Restitutionary Damages (1993), para 1.29.

⁹¹⁷ *Thompson v Commissioner of Police of the Metropolis* (1998) 10 Admin LR 363; [1997] EWCA Civ 3083; [1998] QB 498; [1997] 3 WLR 403; [1997] 2 ALL ER 762.

⁹¹⁸ *Thompson* (n 917) 417G-H.

⁹¹⁹ *Clerk and Lindsell on the Law of Torts* is now in its 23rd edition (2020). The Court in *Thompson* (n 917) quoted the 15th edition.

compensate the plaintiff for Injury to his feelings and the amount payable should reflect this...Aggravated damages are thus, at least in theory, quite distinct from exemplary or punitive damages which are awarded to teach the defendant that tort does not pay and to deter him and others from similar conduct in the future.’ The authors went on to acknowledge that the two kinds of damages are not always easy to keep apart and in older cases, awards have been made without it being clear whether it was on the compensatory principle or the punitive principle. Lord Devlin stated that exemplary damages may only be awarded in certain classes of case and the distinction is important. Despite Lord Devlin’s opinion that in general, aggravated damages can do most, if not all of the work that could be done by exemplary damages, it must be borne in mind that, except where exemplary damages are permissible, every award of damages, where appropriate, must be justifiable on the basis of compensation; if it is not, the inference will be that an improper element of punishment of the defendant or of simple bounty for the claimant has entered into the assessment and the award will, accordingly, be struck down on appeal. Accordingly, the Law Commission recommended reform on the basis that aggravated damages should be viewed as purely compensatory, being assessed with reference to what is necessary to compensate certain losses suffered by the claimant, not with reference to what is necessary to punish the defendant.⁹²⁰

5.5 *Exemplary damages v restitutionary damages*

Exemplary damages are damages which are intended to punish the defendant, to effect retribution, as well as being concerned to deter the defendant from repeating the outrageously wrongful conduct and others from acting similarly.⁹²¹ They may also serve as a satisfaction and may assuage any urge for revenge felt by victims, thereby discouraging them from taking the law into their own hands.⁹²² The basis for awarding exemplary damages is the three category test set out by Lord Devlin in *Rookes v Barnard*.⁹²³ It is category two of the test that is applicable to the availability of such

⁹²⁰ The Law Commission Report on Damages (n 30).

⁹²¹ The Law Commission Report on Damages (n 30) para 1.85.

⁹²² The Law Commission Report on Damages (n 30) para 1.85.

⁹²³ *Rookes v Barnard* (n 423).

damages for IP infringement, which is wrongdoing ‘calculated’ to make a ‘profit’. Lord Devlin considered ‘profit’ to extend beyond money making in the ‘strict sense,’ to include cases where the defendant seeks to make a gain by committing the wrong.⁹²⁴ That situation is similar to the defendant’s gain in the case of *Absolute Lofts*,⁹²⁵ where the use of photographs depicting the claimant’s loft conversions, enhanced the defendant’s business. The second issue is the state of the mind of the defendant, in constituting a ‘calculation.’ It is insufficient that the conduct in question occurred in a business context, it must additionally be shown that the defendant made a decision to proceed with the conduct knowing it to be wrong, or reckless as to whether or not it was wrong, because the advantages of going ahead outweighed the risks involved.⁹²⁶ The third category, is applicable to copyright and the imposition of additional damages under section 97(2) of the CDPA 1988. Lord Devlin did comment that additional damages for copyright infringement may be a possible example of statutory exemplary damages.⁹²⁷

The Law Commission Report focused on the difference between exemplary damages under category two and restitutionary damages⁹²⁸ and how far, if at all, category two exemplary damages are essentially restitutionary damages. The Law Commission refuted the fact that the two forms of damages can be equated. The first difference between the two, was that the focus of category two, is the defendant’s improper motive; the calculation that he would make a profit, whereas, the focus of restitutionary damages is on the *actual making of a profit*. Therefore, an award of exemplary damages may be made where the tortious conduct was calculated to yield a profit even if it failed to do so and may be awarded even though restitutionary damages are unavailable. The second difference, is that exemplary damages may be awarded even though they exceed the amount of the gain made by the defendant, so the effective pursuit of punishment may *require* awards of exemplary damages to exceed the restitutionary measure, as they are concerned with punishment and not simply stripping away the fruits of the defendants wrongful conduct, in the way that an

⁹²⁴ *Rookes v Barnard* (n 423) 1227.

⁹²⁵ *Absolute Lofts* (n 497).

⁹²⁶ *Broome v Cassell* (n 911) 1079, 1088G-1089A, 1094C-E, 1101D-G, 1121D, 1130D-F.

⁹²⁷ *Rookes v Barnard* (n 423) 1225.

⁹²⁸ The Law Commission Report on Damages (n 30) para 1.101-1.104.

account of profits would do. Their deterrent effect was discussed by Lord Diplock in *Broome v Cassell*,⁹²⁹ where he stated that 'to restrict the damages recoverable to the actual gain made by the defendant if it exceeded the loss caused to the plaintiff, would leave the defendant contemplating an unlawful act with the certainty that he had nothing to lose to balance against the chance that the plaintiff might never sue him or, if he did, might fail in the hazards of litigation. It is only if there is a prospect that the damages may exceed the defendant's gain that the social purpose of this category is achieved – to teach a wrong doer that tort does not pay.'

The Law Commission did highlight the issue with quantifying exemplary damages, in that it is not easy to identify actual cases where the quantum of exemplary damages exceeded the measure of the defendant's unjust enrichment, which may be because the quantification of exemplary damages is rarely a precise exercise; awards were (at the time) often assessed by a jury and it was very rare for evidence of the tortfeasor's profit to be adduced in court, as such a profit, in any case, may be difficult to quantify. This issue has been shown in the discussion herein on account of profits, but could be addressed by the use of Guidelines to assist in the application of such awards and in assessing quantum. The final difference between exemplary and restitutionary damages, is that many of the overriding principles which structure the discretion to award exemplary damages and which govern their assessment, seem to be irrelevant to and even inconsistent with, a remedy which is directed to the recovery of profits.⁹³⁰ IP infringement has long been concerned with applying restitution for wrongs to prevent unjust enrichment. In *Lipkin Gorman v Karpnale Ltd*⁹³¹ the House of Lords accepted for the first time, that there is an English law of restitution based on the principle of unjust enrichment. IP infringement, such as infringement of copyright, is a statutory tort, and restitution for such torts, has been through the equitable remedy of an account of profits, a very well established remedy, with 'the purpose of ordering an account of profits in favour of a successful plaintiff in a passing off case to prevent an unjust enrichment of the defendant.'⁹³² The difference between an account of profits

⁹²⁹ *Broome v Cassell* (n 911) 1130C-D.

⁹³⁰ These include reference to moderation and joint liability. See Law Commission Report on Damages (n 30) paras 4.68 and 4.77-4.80.

⁹³¹ *Lipkin Gorman* (n 475).

⁹³² *My Kinda Town Ltd v Soll*, [1982] FSR 147, reversed on liability [1983] RPC 407.

and damages, is that by the former the infringer is required to give up his ill gotten gains to the party whose rights he has infringed and by the latter he is required to compensate the party wronged for the loss he has suffered.⁹³³ IP statutes have set out that an account of profits may be ordered for the infringement of that right and they are included in Article 13 of the Enforcement Directive 2004/48/EC.

5.6 Damages authorised by statute

Lord Devlin's third category in *Rookes v Barnard*⁹³⁴ is applicable to IP infringement, with the availability of exemplary damages authorised by statute, under section 97(2) of the CDPA 1988, which permits awards of *additional damages*, the correct analysis of which, remains controversial⁹³⁵ in the context of claims for copyright infringement. In *Cala Homes (South) Ltd v McAlpine Homes East Ltd (No 2)*⁹³⁶ and *Redrow Homes v Bett Brothers Plc*,⁹³⁷ the respective courts reached opposing conclusions as to whether additional damages could only be claimed in addition to 'damages', as was held in *Redrow Homes*, or whether they could be claimed in addition to an account of profits, as was held in *Cala Homes*. The proper characterisation of additional damages was central to their reasoning. Laddie J in *Cala Homes* was of the opinion that additional damages were a form of financial relief that could be likened to exemplary damages.⁹³⁸ The Court of Session in *Redrow Homes* held that they were aggravated damages,⁹³⁹ as the predecessor to section 97(2) of the CDPA 1988 was section 17(3) of the Copyright Act 1956, which had not generally been thought to authorise exemplary damages⁹⁴⁰ but rather aggravated damages,⁹⁴¹ or compensation which would otherwise be unrecoverable under the ordinary rules of remoteness and proof of damage.⁹⁴² In 1977, the Whitford Committee considered that section 17(3) permitted exemplary

⁹³³ *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd.* (1968) 122 CLR 25 (HCA), (Windeyer J).

⁹³⁴ *Rookes v Barnard* (n 423).

⁹³⁵ The Law Commission Report on damages (n 30) para 1.105.

⁹³⁶ *Cala Homes (South) Ltd v McAlpine Homes East Ltd (No 2)* [1996] FSR 36.

⁹³⁷ *Redrow Homes* (n 472).

⁹³⁸ *Cala Homes* (n 936) 43.

⁹³⁹ *Redrow Homes* (n 472).

⁹⁴⁰ See *Broome v Cassell* (n 911) 1134A, (Lord Kilbrandon); *Beloff v Pressdram Ltd* [1973] 1 ALL ER 241, 264J-266b (Ungoed-Thomas J).

⁹⁴¹ *Broome v Cassell* (n 911).

⁹⁴² *Mondaress Ltd v Bourne & Hollingsworth Ltd* [1981] FSR 118, 122 (Buckley J).

damages and that the provision should be strengthened,⁹⁴³ while the Gregory Committee,⁹⁴⁴ upon which the 1956 Copyright Act was based, advocated the introduction of a power to award ‘something equivalent to exemplary damages in cases where the existing remedies give inadequate relief.’

5.7 *The if, but only if, test*

In addition to Lord Devlin’s three categories, the court has to be satisfied as to the *if, but only if* test, before an award of exemplary damages can be made. The test is that such damages are available to the court, if, but only if, the sum which it seeks to award as compensation is inadequate to punish the defendant for his outrageous conduct, to deter him and others from engaging in similar conduct and to mark the court’s disapproval of such conduct.⁹⁴⁵ The court has seen the award of exemplary damages as *ultima ratio*, with the House of Lords in *Broome v Cassell*⁹⁴⁶ stating that the *if, but only if, test* entails that exemplary damages are a remedy of ‘last resort’ and that they are, in one sense, a ‘topping up’ award. It recognises that even awards of compensatory damages may have an incidental punitive effect and that the need for an award of exemplary damages is correspondingly reduced where this is so. Thus, the test makes the availability of exemplary damages conditional on compensatory awards being inadequate to achieve the ends of punishment, deterrence and disapproval. Such awards represent the balance between, on the one hand, any compensatory sum and on the other hand, the sum that the court considers to be appropriate to achieve those ends. Notwithstanding Lord Devlin’s categories and the *if, but only if, test*, the court still retains a discretion as to whether to make an award of exemplary damages.⁹⁴⁷ The exercise of this discretion has led to the identification of a number of factors which further limit the availability of these damages, with several factors alternatively, being relevant to the assessment of such awards.⁹⁴⁸ The factors, other than the *if, but only if,*

⁹⁴³ The Whitford Committee, Copyright and Designs Law (1977) Cmnd 6732, paras 697-705. (Whitford Committee Report (1977)).

⁹⁴⁴ The Gregory Committee, The Report of the Copyright Committee (1952) Cmnd 8662, para 294 (The Gregory Committee Report (1952)).

⁹⁴⁵ *Rookes v Barnard* (n 423) 1228.

⁹⁴⁶ *Broome v Cassell* (n 911) 1060A-D.

⁹⁴⁷ *Broome v Cassell* (n 911) 1060B (Lord Hailsham).

⁹⁴⁸ The Law Commission Report on Damages (n 30) para 1.113.

test, are that the plaintiff must be the 'victim of the punishable behaviour', the defendant has already been punished by a criminal or other sanction, the existence of multiple plaintiffs and the plaintiff's conduct.⁹⁴⁹ In IP infringement cases, the right holder will obviously be required to prove that an infringement has occurred and that he is the victim of such conduct, who has suffered loss as a result. There is no reason why the court would not award exemplary damages against multiple infringers, the only difficulty arising may be the apportionment of damages as between them⁹⁵⁰ The other factors, such as the claimant's conduct and previous criminal or other sanctions, may go to the assessment of the level of such an award.

It is in the assessment of exemplary damages that there lies great uncertainty. Their assessment is essentially indeterminate and has often been criticised for 'unpredictability' and 'virtual uncontrollability.'⁹⁵¹ The Law Commission Report⁹⁵² has analysed the assessment process to ascertain the difficulties in determining such awards. One of the reasons cited, was the large number of factors that were relevant to the assessment, including the subjectivity of some of those factors. The court has to determine the culpability or punishment-worthiness of the defendant's conduct, as everything which aggravates or mitigates the defendant's conduct is relevant.⁹⁵³ The unpredictability of awards has been cited as a positive factor, because it prevents tortfeasors undertaking a cost-benefit analysis of their conduct, which Lord Devlin's category two factor, is designed to thwart. Again, factors have been identified, which are deemed relevant to the assessment of exemplary damages. These include human rights principles, which will be considered in a subsequent chapter of this thesis, the principle of moderation, the wealth of the defendant, a windfall to the claimant, which may divert from public services, the existence of multiple defendants, the existence of multiple claimants, the claimant's conduct and the defendant's good faith.⁹⁵⁴ Exemplary awards are governed by a principle of 'moderation or restraint'⁹⁵⁵ with courts being encouraged to award lower, rather than higher awards. Lord Devlin

⁹⁴⁹ The Law Commission Report on Damages (n 30) para 1.114.

⁹⁵⁰ The Law Commission Report on Damages (n 30) para 1.131.

⁹⁵¹ P. Birks, *Civil Wrongs: A New World* (Butterworth Lectures 1990-91) pp 79-82; *Broome v Cassell* n 911) 1087D-F (Lord Reid).

⁹⁵² The Law Commission Report on Damages (n 30) para 1.140-1.144.

⁹⁵³ *Rookes v Barnard* (n 423) 1228 (Lord Devlin).

⁹⁵⁴ The Law Commission Report on Damages (n 30) para 1.143.

⁹⁵⁵ *Rookes v Barnard* (n 423) 1227-1228.

recognised the possibility of the House of Lords placing an arbitrary limit on such awards that are made by way of punishment, as exhortations to be moderate may not be enough.⁹⁵⁶ The defendant's capacity to pay is a factor in making an award,⁹⁵⁷ as is the need to avoid a windfall to the plaintiff.⁹⁵⁸ The House of Lords, considering the need to avoid the over-punishment of defendants, where there is joint and several liability, has held that where two or more joint tortfeasors are sued together, only one sum can be awarded by way of exemplary damages, which is limited to the sum that is necessary to punish the defendant who bears the least responsibility for the tort.⁹⁵⁹ This avoids a tortfeasor with the lowest culpability, being assessed with reference to the greater fault of the other defendants. In the case of multiple plaintiffs, the potential for 'multiple punitive liability' has been considered by the court deciding that where there are two or more plaintiffs against a single defendant, the court must assess only a single exemplary award, as appropriate punishment for the defendant's conduct.⁹⁶⁰ Conversely, a court has considered the issues in such a case so serious, that it constituted a valid reason for refusing to make any exemplary award at all.⁹⁶¹ The plaintiff's conduct may be taken into account in awarding exemplary damages⁹⁶² as well as the defendant's good faith, or honest mistake, or a lack of aggravating features.⁹⁶³ These are obvious factors to form part of an assessment for exemplary damages.

5.8 *Brackets and Guidelines*

The use of brackets and guiding principles in assessing damages, has been referenced in this thesis. Even in 1997, when the Law Commission Report was published, there was discussion as to the use of such guidance. Exemplary damages have historically been assessed by juries as opposed to judges and little guidance was given to assist them in setting an appropriate exemplary sum.⁹⁶⁴ The Court of Appeal has intervened

⁹⁵⁶ *Rookes v Barnard* (n 423) 1228.

⁹⁵⁷ *Rookes v Barnard* (n 423).

⁹⁵⁸ *Thompson* (n 917).

⁹⁵⁹ *Broome v Cassell* (n 911) 1063D-1064A, 1090E, 1096F-G, 1105D-G, 118G-1119A, 1122B.

⁹⁶⁰ *Riches v New Group Newspapers Ltd* [1986] QB 256.

⁹⁶¹ *AB v South West Water Services Ltd* [1993] QB 507.

⁹⁶² The Law Commission Report on Damages (n 30) para 1.168.

⁹⁶³ *Holden v Chief Constable of Lancashire* [1987] QB 380, 388D-E.

⁹⁶⁴ In *John v MGN Ltd* [1997] QB 586, 619E (Sir Thomas Bingham MR).

by permitting the courts to substitute a more appropriate award, as well as by permitting trial judges to give guidance to juries on the assessment of compensatory and exemplary awards. The guidance can take the form of the *JC Guidelines for the Assessment of General Damages in Personal Injury Cases*⁹⁶⁵ and these Guidelines are published about every two years in respect of the assessment of compensatory awards.⁹⁶⁶

The first detailed guidance for exemplary damages, came in the case of *Thompson v MPC*⁹⁶⁷ in which the court held that a trial judge should suggest an 'appropriate bracket' to the jury, which includes an approximate 'basic' figure, as well as an approximate 'ceiling.'⁹⁶⁸ That case involved false imprisonment and malicious prosecution, but it differed in its' approach to the case of *John v MGN*,⁹⁶⁹ which was a defamation case. In *Thompson v MPC*, the approach was that the judge decides the appropriate bracket, after hearing submissions from counsel in the absence of the jury and only once the judge has determined the appropriate bracket, should it be put before the jury.⁹⁷⁰ In contrast, *John v MGN* permits both counsel and the trial judge to *each* suggest appropriate figures.⁹⁷¹ Lord Woolf MR, in *Thompson v MPC*⁹⁷² himself suggested figures to assist trial judges, but noted that circumstances can vary dramatically from case to case and these figures which we provide are not intended to be applied in a mechanistic manner.⁹⁷³ This view put forward by Lord Woolf, supports the long held approach in the application of the JC Guidelines for assessing personal injury cases, that they are guidelines, not tram lines and the court has discretion within those brackets to make a suitable award. In recent years, there has been less reliance on case law to support awards and more reliance on the guidelines, as each case varies considerably.⁹⁷⁴ The basis for the *Thompson* and *John* cases are that the guidelines

⁹⁶⁵ See Law Commission Report on Damages (n 30) para 1.170 and footnote 482 on page 82.

⁹⁶⁶ The current edition is the 16th edition, published in 2022.

⁹⁶⁷ *Thompson* (n 917) 414G-H.

⁹⁶⁸ *Thompson* (n 917) 415H-416H.

⁹⁶⁹ *John v MGN* (n 964).

⁹⁷⁰ *Thompson* (n 917) 416A-B.

⁹⁷¹ *John v MGN* (n 964).

⁹⁷² *Thompson* (n 917) 416D-H (Lord Woolf MR).

⁹⁷³ *Thompson* (n 917) 416H.

⁹⁷⁴ The writers own experience of court decision making in this area.

would facilitate *ex post facto* appellate control of jury awards, such that it would be easier to determine whether sums awarded by a jury are excessive.⁹⁷⁵

The Law Commission Report⁹⁷⁶ considered the fact that in *Thompson v MPC*, the Court of Appeal formulated detailed guidelines for juries assessing exemplary damages. These included not only guiding principles, but also approximate minimum and maximum 'ceiling' figures for use in actions against the police for false imprisonment and malicious prosecution. Those guidelines incorporated two new principles of restraint, in addition to the 'if, but only if,' test. The first test, was that, to the extent that aggravated damages had already been given, they will have compensated the claimant for the injury he has suffered, due to the oppressive or insulting behaviour of the defendant and in doing so, has inflicted a measure of punishment, albeit incidentally, on the defendant. That test really just reinforced what was implicit in the 'if, but only if, test.' The second test, stated two important reasons for restraint, which is that an award of exemplary damages is a windfall and (specific to this particular cause of action), where the damages were payable out of police funds, the sum awarded may not be available to be expended, for example, in a way which would benefit the public.⁹⁷⁷ This situation differs from IP infringement cases, where awards are more usually paid by defendants, either individuals or corporations, rather than public bodies. This also mitigates against the principle of keeping exemplary damages at a low level, which is different to a reasonable, or proportionate level and in keeping with the principles of marginal deterrence. The actual figures put forward by Lord Woolf in *Thompson v MPC*⁹⁷⁸ for exemplary damages were no less than £5,000, otherwise the case was probably not one which justified an award of exemplary damages at all. In that particular class of action, an award as much as £25,000 should reflect conduct particularly deserving of condemnation and the figure of £50,000 should be regarded as the absolute maximum, directly involving officers of at least the rank of superintendent. The case was directed at two specific torts and are therefore of little assistance in the principle of assessing damages for IP infringement. It was however, an early precedent for the imposition of guidelines, but it requires a great

⁹⁷⁵ *Thompson* (n 917) 414G-H.

⁹⁷⁶ The Law Commission Report on Damages (n 30) para 1.178-1.182.

⁹⁷⁷ *Thompson* (n 917) 417G-417H.

⁹⁷⁸ *Thompson* (n 917) 418A-B.

deal more detail about the conduct being addressed and the factors that aggravate or mitigate awards.

The issue of exemplary damages was considered by the House of Lords in *Kuddas (AP) v Chief Constable of Leicester Constabulary*,⁹⁷⁹ a case concerning forgery by a police officer and misfeasance in public office. In the Court of Appeal, the defendant successfully contended that exemplary damages were not recoverable for the tort of misfeasance by a public officer, but he accepted that aggravated damages were recoverable. The parties had agreed that an award of exemplary damages may be made in appropriate cases, even though, being punitive in nature, such an award was inconsistent with the principle that damages are intended to be compensatory. Lord Slynn of Hadley confirmed that as the law stood, that agreement was well founded.⁹⁸⁰ He analysed Lord Devlin's judgment in *Rookes v Barnard*⁹⁸¹ and also considered *Broome v Cassell*⁹⁸² and *AB v South West Water Services Ltd.*⁹⁸³ He did not consider that the Lords were bound by a clear or unequivocal decision in *Broome v Cassell*, to hold that the power to award exemplary damages was limited to cases where it can be shown that the cause of action had been recognised before 1964, as justifying an award of exemplary damages. It was certainly not bound by anything said by Lord Devlin in what was after all, a basic statement of the law.⁹⁸⁴ Lord Slynn did not consider that in principle it should be so limited and he noted that until *Rookes v Barnard*, the distinction between exemplary and aggravated damages was not clearly articulated. He believed that the adoption of such a rigid rule seemed to limit the future development of the law even within the restrictive categories adopted by Lord Devlin, in a way that was contrary to the normal practice of the courts. He quoted the 15th edition of *Winfield and Jolowicz on Tort*,⁹⁸⁵ which accepted the position that the decision in *Rookes v Barnard* was not a new start for the law under two rationalised categories, but a further restriction upon the then, existing authority. The authors did

⁹⁷⁹ *Kuddas (AP) v Chief Constable of Leicester Constabulary* [2001] UKHL 29.

⁹⁸⁰ *Kuddas* (n 979) [3] [4] (Lord Slynn of Hadley).

⁹⁸¹ *Rookes v Barnard* (n 423).

⁹⁸² *Broome v Cassell* (n 911).

⁹⁸³ *AB v South West Water* (n 961).

⁹⁸⁴ *Kuddas* (n 979) [21] [22].

⁹⁸⁵ *Winfield and Jolowicz on Tort*, (15th ed 1998) 746, See 20th ed. para 23-018 for the authors updated statement on the 'rejection of the cause of action test' which was rejected in *Kuddas*. As such, the jurisdiction to award punitive damages is no longer confined to particular causes of action in tort.

not agree with that situation, describing it as irrational, depending not on principle, but upon accidents of litigation or even law reporting, before 1964, at a time where the distinction between exemplary and aggravated damages was by no means as clear as it is was at that time. (1998). Lord Slynn acknowledged the position of the Law Commission, which had recommended that the availability of punitive damages be extended for most torts, which would entail the rejection of 'the rationally indefensible position which the common law reached' in deciding claims on the basis of the existence or absence of pre-1964 precedents. Lord Slynn did not consider that the question of whether the issue of exemplary damages should be available, should be reopened.⁹⁸⁶ He was of the opinion that it is the features of the defendant's behaviour rather than the cause of action which must be looked at, in order to decide whether the facts of that case fell into the first category put forward by Lord Devlin,⁹⁸⁷ which, in his view, they did and he held that the appeal should be allowed against the striking out of the claim for exemplary damages. Lord Mackay of Clashfern concurring,⁹⁸⁸ noted that the genius of the common law was its capacity to develop and it appeared strange that the law on this particular topic should be frozen by reference to decisions taken prior to *Rookes v Barnard*.

Much water has flowed under the bridge since *Rookes v Barnard* was decided, many statutory duties have been created and the Human Rights Act 1998 has been enacted which gives rise to claims for damages, the principles of which, may well affect the propriety of and the necessity for, a power to award exemplary damages to continue to be recognised in the law of England.⁹⁸⁹ Lord Nicholls of Birkenhead stated that punishment is a function par excellence of the criminal law, rather than the civil law, but he accepted that in *Rookes v Barnard*, the House of Lords recognised that there were circumstances where, generally speaking, the conduct is not criminal and an award of exemplary damages would serve a useful purpose in vindicating the strength of the law and that this purpose would afford 'a practical justification for admitting into the civil law a principle which ought logically to belong to the criminal law.' He considered the cause of action principle an arbitrary and irrational restriction on the

⁹⁸⁶ *Kuddas* (n 979) [25].

⁹⁸⁷ *Kuddas* (n 979) [26].

⁹⁸⁸ *Kuddas* (n 979) [33].

⁹⁸⁹ *Kuddas* (n 979) [36].

availability of exemplary damages.⁹⁹⁰ Lord Nicholls concluded with observations that the availability of exemplary damages has played a significant role in buttressing civil liberties, in claims for false imprisonment and wrongful arrest and from time to time, cases do arise where awards of compensatory damages are perceived as inadequate to achieve a just result between the parties. On occasion, conscious wrongdoing by a defendant is so outrageous, his disregard of the claimant's rights, so contumelious, that something more is needed to show that the law will not tolerate such behaviour and the nature of the defendant's conduct calls for a further response from the courts...Exemplary damages, as a remedy of last resort, fill what otherwise would be a regrettable lacuna.⁹⁹¹

5.9 *Additional damages under section 97(2) CDPA 1988*

Exemplary, or punitive type damages for IP infringement are statutory based, being available under section 97(2) of the CDPA 1988, as 'additional damages' and it is necessary to consider the extent to which they satisfy the three elements of exemplary damages; to punish, to deter and to prevent unjust enrichment.⁹⁹² The Copyright Act 1956, was the first IP statute to provide for additional damages. Section 17(3) of that Act differed from section 97(2) of the CDPA 1988, in that a pre-requisite for additional damages, was the admittance of, or proof of copyright infringement. The court was required to take into account, in addition to all other material considerations, (a) the flagrancy of the infringement, and (b) any benefit shown to have accrued to the defendant by reason of the infringement. If the court was then satisfied that effective relief would not otherwise be available to the plaintiff, it had the power to award such additional damages as the court may consider appropriate in the circumstances. Section 17(3) of the 1956 Act was perhaps more lucid than its 1988 successor and accorded more accurately with the purpose of an exemplary award. The court had to take into account flagrancy, or conduct, which required punishment, the defendant's benefit, or unjust enrichment, but particularly, the lack of effective relief, if additional damages were not awarded and it is this factor that the 1988 legislation lacks. Section

⁹⁹⁰ *Kuddas* (n 979) [65].

⁹⁹¹ *Kuddas* (n 979) [63]

⁹⁹² H. Street, *Principles of the Law of Damages* (London: Sweet & Maxwell, 1962) 30-35.

17(3) explicitly acknowledges that compensation alone, would not adequately compensate the claimant. Under the 1911 Copyright Act, there were onerous penalties without being expressly punitive in nature. Compensatory damages were provided for under section 6 and under section 7, infringing articles were the property of the copyright holder, enabling him to rely on a conversion remedy, which provided him with damages amounting to the value of the infringing goods at the time of the conversion, or the infringement, usually based upon a multiplier of the normal retail price.⁹⁹³ This figure could run into many thousands of pounds, depending on the price per unit, based on the normal retail price.⁹⁹⁴ The Gregory Committee accepted that conversion damages were penal in character,⁹⁹⁵ but should be retained.⁹⁹⁶ Subsequently, following a recommendation by the Whitford Committee⁹⁹⁷ conversion damages were abolished and did not find a place in the CDPA 1988.

Additional damages have been described as *sui generis* in their nature,⁹⁹⁸ in the most recent case on additional damages,⁹⁹⁹ as well as being of a 'punitive nature' in the first case,¹⁰⁰⁰ where the court considered flagrant infringement to occur where the defendant had exhibited a total disregard of the claimant's copyright. Additional damages have a chequered history when it comes to their descriptive basis. Many members of the judiciary have taken a different view of the purpose of additional damages, with some describing them as compensatory,¹⁰⁰¹ In *Broome v Cassell*¹⁰⁰² Lord Kilbrandon stated that additional damages did not authorise an exemplary award and in *Nottinghamshire Healthcare Trust*,¹⁰⁰³ Pumfrey J went so far as to state that punitive awards were not permitted. That case involved a detailed analysis of additional damages. Pumfrey J reiterated the general principles applicable to damages for the infringement of all IP rights, then reviewed the wording of section 97(2) and its

⁹⁹³ The Gregory Committee Report (n 944) para 288.

⁹⁹⁴ Copyright Law Review Committee, Report on Conversion Damages (1990).

⁹⁹⁵ Report on Conversion Damages (n 994) para 291.

⁹⁹⁶ Report on Conversion Damages (n 994) para 292.

⁹⁹⁷ The Whitford Committee Report (n 943).

⁹⁹⁸ *PPL v Ellis* (n 12) [36] [37].

⁹⁹⁹ *PPL v Ellis* (n 12).

¹⁰⁰⁰ *Williams v Settle* [1960] 1 WLR 1072, at 1082.

¹⁰⁰¹ Templeman L.J. in *Rank Film Distributors v Video Information Centre* [1980] 3 WLR 487, at 520; *Nichols Advanced vehicle Systems v Rees* [1979] RPC 127, ChD, at 140.

¹⁰⁰² *Broome v Cassell* (n 911) (Lord Kilbrandon).

¹⁰⁰³ *Nottinghamshire Healthcare NHS Trust* (n 493) [51].

predecessor. He pointed out that the exact nature of additional damages for copyright infringement had been left undecided by the House of Lords in *Redrow Homes v Betts*.¹⁰⁰⁴ It had been suggested that an award of aggravated damages was *sui generis* in nature, but Pumfrey J explained that a consensus was emerging that such damages were similar to aggravated damages. The reasons given, were the policy restrictions laid down by the House of Lords in *Rookes v Barnard* for exemplary damages,¹⁰⁰⁵ with the latter phrase meaning ‘an award of damages intended both to compensate the plaintiff for his loss and to teach the defendant that tort does not pay,’ which reflects the punitive nature of the award and also, the possibility of bringing criminal proceedings against the infringer under section 107 of the CDPA 1988, pointed to additional damages for copyright infringement being aggravated damages; an award with an element of restitution, which took account of the benefit gained by the defendant and where the normal compensation to the claimant, left the defendant still enjoying the fruits of his infringement. These conclusions by Pumfrey J suggest that there had been a change in the nature of additional damages under the CDPA 1988, as the Court of Appeal in *Williams v Settle*¹⁰⁰⁶ clearly regarded the predecessor to section 97(2) as giving the power to award exemplary damages.¹⁰⁰⁷

Pumfrey J subsequently had to apply his own ruling in *Phonographic Performance Ltd v Reader*,¹⁰⁰⁸ where a disc jockey had failed to obtain a licence for the public performance of sound recordings for at least two years despite previous undertakings. He held that it was permissible for an award of statutory additional damages to include a punitive element provided that the purpose was not simply to punish the defendant. In this case, the defendant was well aware of the need to obtain a licence, had previously obtained one only under the threat of legal proceedings and had no excuse in his failure to seek the appropriate licence. *PPL v Reader* was a case of deliberate and flagrant infringement and that is perhaps why Pumfrey J conceded ground and accepted that punitive damages were permitted, albeit on an ancillary basis to compensation.

¹⁰⁰⁴ *Redrow Homes* (n 472).

¹⁰⁰⁵ *Nottinghamshire Healthcare NHS Trust* (n 493) [33].

¹⁰⁰⁶ *Williams v Settle* (n 1000).

¹⁰⁰⁷ The predecessor was The Copyright Act 1956, s 17(3).

¹⁰⁰⁸ *PPL v Reader* (n 280).

The precise rationale for additional damages remained unclear and there was further discussion in *Eaton Mansions v Stinger Compania de Inversion*,¹⁰⁰⁹ a claim for trespass, where one of the issues before the court, was whether an award of aggravated damages can be awarded against a company. The Court of Appeal held that aggravated damages were not recoverable by a limited company or other non-human claimant. This prompted the view that damages under section 97(2) of the CDPA 1988 are aggravated damages, which, if *Eaton Mansions* applies to them, are only recoverable by natural persons, who are not the most frequent of claimants in IP cases.¹⁰¹⁰ McGregor on Damages, 22nd ed¹⁰¹¹ noted that for 30 years there had been uncertainty at first instance as to whether the impersonal nature of a company debarred it from an award of aggravated damages, but the question had come before the Court of Appeal in *Eaton Mansions* and it was held without reservation that aggravated damages are not recoverable by corporate claimants. It is the case that claimants for additional damages on account of the flagrancy of the particular infringement tend to be companies and not individuals. Indeed none of the claimants in the known cases where flagrancy damages have been awarded have been individuals. Companies or trusts do not have feelings and since *Eaton Mansions* this issue has finally been determined.

Additional damages for flagrant copyright infringement, under section 97(2) of the CDPA 1988, were recently discussed in some detail, in *PPL v Ellis*.¹⁰¹² That case followed a line of cases decided at first instance in the Chancery Division, where additional damages have been awarded at the same time as the imposition of a suspended sentence of imprisonment for contempt of court in breaching an injunction previously granted to restrain copyright infringement. *PPL*, a collecting society requested such damages against the defendant, Mr. Ellis, but Birss J in the High Court refused on the ground that it inappropriate to award such damages in addition to the imposition of a suspended sentence. Leave to appeal was granted on this 'self

¹⁰⁰⁹ *Eaton Mansions (Westminster) Ltd v Stinger Compania de Inversion* [2013] EWCA Civ 1308; [2014] C.P. Rep. 12.

¹⁰¹⁰ *PPL v Ellis* (n 12) [32].

¹⁰¹¹ McGregor on Damages, 22nd ed para 48-065.

¹⁰¹² *PPL v Ellis* (n 12).

contained, but important point of principle' for *PPL*, because of the high number of claims it brings annually.¹⁰¹³ The case also clarified the nature of aggravated and exemplary damages, as well as additional damages.

Section 1(1) of the CDPA 1988 describes copyright as a property right, conferring an exclusive right to do the acts specified as the restricted acts in relation to the protected work, those rights being the right to stop other people from undertaking certain acts in relation to the work, such as copying it or communicating it to the public. A person who does such restricted acts without the consent of the right holder, infringes that property right, giving rise to a cause of action. The remedies include injunctive relief, compensatory damages or an account of profit. Where damages are awarded, section 97(2) permits the court to take into account the defendant's flagrancy and any benefit accruing from the infringement and award such additional damages as the justice of the case may require.¹⁰¹⁴ As the damages under section 97(2) are described as 'additional' they cannot be awarded where the copyright owner elects to receive an account of profits rather than damages. Compensatory damages are awarded to the property owner for the invasion of his property right that has already occurred, whereas an injunction is an order to prevent future invasions of that property.¹⁰¹⁵ Jackson LJ noted that a sentence for contempt of court following a breach of an injunction performs a number of functions, such as upholding the authority of the court by punishing the contemnor and deterring others.¹⁰¹⁶ There is no actual benefit to the right holder, as a custodial sentence, will not compensate him and any fine is paid to the state.

In *PPL v Ellis*, Lewison LJ distinguished aggravated damages from exemplary damages.¹⁰¹⁷ Aggravated damages are awarded for a tort, as compensation for the claimant's mental distress, where the manner in which the defendant has committed the tort, or his motives in so doing, or his conduct subsequent to the tort, has upset or outraged the claimant. Such conduct or motive aggravates the injury done to the

¹⁰¹³ *PPL v Ellis* (n 12) [1].

¹⁰¹⁴ *PPL v Ellis* (n 12) [3].

¹⁰¹⁵ *PPL v Ellis* (n 12) [5].

¹⁰¹⁶ *JSC BTA Bank v Solodchenko (No 2.)* [2011] EWCA Civ 1241, [2012] 1 WLR 350, at [45] (Jackson LJ).

¹⁰¹⁷ *PPL v Ellis* (n 12) [10]-[12].

claimant and therefore warrants a greater or additional compensatory sum. The court based its description of exemplary damages on *Kuddas v Chief Constable of Leicestershire*,¹⁰¹⁸ in which Lord Nicholls referred to exemplary and punitive damages as being synonymous and stand apart from awards of compensatory damages, being additional to an award which is intended to fully compensate a plaintiff for the pecuniary and non pecuniary loss that he has suffered. They are intended to punish and deter. In its initial iteration, the power to award additional damages was restricted to cases in which the court was satisfied that the claimant would not otherwise be entitled to 'effective relief', but this was not further defined. When the Whitford Committee reported in 1977,¹⁰¹⁹ it recommended that the provisions for exemplary damages should if anything, be extended and that the power of the courts to award additional damages if there has been a flagrant infringement, should not be fettered by any requirement that the claimant must show some particular benefit which has accrued to the defendant or that effective relief could not otherwise be available to the claimant. In the case of flagrant infringement the court should be left with a complete discretion to make such an award of damages as may seem appropriate to the circumstances, so that the existence of this provision will act as a deterrent if the existing deterrent of conversion damages is removed.¹⁰²⁰ In *Michael O'Mara Books Ltd v Express Newspapers Plc*¹⁰²¹ the court concurred with the *sui generis* description of additional damages given by Laddie J in *Cala Homes v McAlpine*,¹⁰²² stating that it was an open question whether damages awarded pursuant to section 97(2) of the CDPA 1988, additional damages, were exemplary damages or aggravated damages, or as he was inclined to think, a separate category of damages which may have some features which are similar to those of exemplary or aggravated damages. The nomenclature of section 97(2) is not helpful to its application, as Laddie, Prescott, and Vitoria observe in *The Modern Law of Copyright* (5th ed),¹⁰²³ the factors in section 97(2) are odd bedfellows, as benefit to the defendant is not, in general, relevant to an award of damages in tort, but is more commonly achieved in IP cases by an account of profits,

¹⁰¹⁸ *Kuddas* (n 979) [51].

¹⁰¹⁹ The Whitford Committee Report (n 943) para 704.

¹⁰²⁰ The Whitford Committee Report (n 943)

¹⁰²¹ *Michael O'Mara Books Ltd v Express Newspapers plc* [1999] FSR 49, at [57] (Neuberger J).

¹⁰²² *Cala Homes* (n 936) [42] (Laddie J).

¹⁰²³ *The Modern Law of Copyright*, Laddie, Prescott & Vitoria,), LexisNexis UK, (5th ed.) (2018), para 26.29 and footnote 6.

although *Redrow Homes* ruled out an award under section 97(2) where an account is ordered. They observe that flagrancy ‘seems to have more to do with chastising the defendant than compensating the claimant.’

5.10 *PPL v Ellis* and a *sui generis* rationale

In *PPL v Ellis*¹⁰²⁴ Lewison LJ confirmed that the legal character of the damages available under section 97(2) is *sui generis* and they do not need to be shoehorned into existing general legal taxonomy; they are a form of damages authorised by statute. Additional damages awarded under section 97(2) may be partly or indeed, wholly punitive.¹⁰²⁵ They are not a fine, they are a *sui generis* award permitted by an act of Parliament and paid to the claimant rather than the State. The utility of an award of additional damages serve a valuable deterrent effect both on the infringer in the particular case under consideration and also more widely in that they send the general message that infringement does not pay.¹⁰²⁶ They therefore provide a specific and general deterrent. Section 97(2) requires reform, reflecting the decision in *PPL v Ellis*, but setting out the circumstances when such awards should be made, with guidelines as to the factors that effect the award and the sums that are appropriate and these will be considered in Chapter Eight.

Although the court in *PPL v Ellis*¹⁰²⁷ took a bold step in addressing the rationale for additional damages, the decision clearly necessitated a brief analysis of the compatibility of additional damages with the Enforcement Directive 2004/48/EC.¹⁰²⁸ The Directive and the 2006 Regulations have been discussed in Chapter Three and they were briefly discussed in *PPL v Ellis*¹⁰²⁹ where the court considered the cases of *Absolute Lofts* and *OTK* and confirmed that a remedy under section 97(2) of the CDPA 1988 is not incompatible with the Directive, if that is more favourable to the right holder than the Directive and that the fact that the Directive does not entail an

¹⁰²⁴ *PPL v Ellis* (n 12) [36] [37] [38].

¹⁰²⁵ *PPL v Ellis* (n 12) [37].

¹⁰²⁶ *PPL v Ellis* (n 12) [38].

¹⁰²⁷ *PPL v Ellis* (n 12).

¹⁰²⁸ Enforcement Directive 2004/48/EC, transposed into domestic law by the Intellectual Property (Enforcement etc) Regulations 2006, art.3.

¹⁰²⁹ *PPL v Ellis* (n 12) [39]-[42].

obligation on Member States to provide for punitive damages, this cannot be interpreted as a prohibition on introducing such a measure. However, in accordance with *OTK*, a particularly egregious award of exemplary damages would amount to an abuse of rights.¹⁰³⁰

PPL v Ellis has, at least for now, settled the normative basis for additional damages, but the question remains as to how these statute permitted *sui generis* damages are to be assessed. The court largely has an unfettered discretion in its ability to assess additional damages¹⁰³¹ and, as with the assessment of damages for personal injury cases, each case turns on its own facts and previous cases are likely to be of limited value. In *Geneva Laboratories v Prestige Premium Deals*¹⁰³² Bromwich J stated that “Additional damages and exemplary damages may be seen as encompassing broad concepts not always readily amenable to precise measurement or quantification. This includes having regard to capturing aspects of the loss that have not been able to be ascertained because of the imperfect nature of litigation and evidence gathering in reflecting all aspects of wrongdoing and the total damaging effect of infringing or contravening conduct. It also entails giving a dollar figure to otherwise intangible considerations of punishment, giving effect to judicial disapproval and sanction and future looking considerations of specific and general deterrence.” The courts also have to be mindful of marginal deterrence and it has been said that a defendant may suffer more from being ordered to pay just about as much as he can, than from a huge award which is unpayable.¹⁰³³ The courts have to take many factors into account when assessing additional or punitive damages, notwithstanding the deterrent effect. The award should not represent a windfall to the claimant and the defendant should not enjoy any unjust enrichment, although an account of profits is more suited to address that issue.

5.11 Calculating flagrancy

¹⁰³⁰ *PPL v Ellis* (n 12) [42].

¹⁰³¹ *Deckers Outdoor Corp v Farley* [2009] FCA 1298, at [114]; *Concrete System v Devon Symonds Hlds* (1978) 20 A.L.R. 677, at 683, stating that it is the widest possible discretionary power.

¹⁰³² *Geneva Laboratories v Prestige Premium Deals* [2017] FCA 63, at [82]-[83].

¹⁰³³ *PPCA v All Girls Entertainment* [2010] FMCA 593, at [22].

The UK courts have not imposed large awards of additional damages in the relatively limited number of cases that have been decided under section 97(2) of the CDPA 1988¹⁰³⁴. In *Absolute Lofts v Artisan Home Improvements*,¹⁰³⁵ a case which has already been discussed in Chapter Three, the court awarded the claimant £300.00 for the Defendant's use of its photographs, and £6,000 additional damages, on the basis that the defendant had been shown to be a man with no great respect for the truth and had engaged in commercial dishonesty with his business having received a benefit, while in *Henderson v All Around the World Recordings Ltd*,¹⁰³⁶ additional damages of £5,000 was awarded against £30,000 compensation. In that case, the court inferred from the judgment at first instance, that flagrancy had been established in accordance with the test in *Ravenscroft v Herbert*,¹⁰³⁷ which amounted to "scandalous conduct, deceit and such like; it includes deliberate and calculated infringement." This goes further than the "couldn't care less attitude" accepted in *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd*,¹⁰³⁸ where additional damages were £9,550, against the £450.00 compensatory award. The definition of flagrancy has recently been discussed in the case of *Software Solutions Ltd & Ors v 365 Health and Wellbeing Ltd & Anor*,¹⁰³⁹ in which HHJ Melissa Clarke set out a summary of principles applicable to a claim under section 97(2) of the CDPA 1988. The award is discretionary and there must normally be some special circumstances to justify it, such as profit; flagrancy involves a calculated infringement, it need not be dishonest, but should be outside the norm; for this purpose, the infringement can either be reckless or deliberate and a 'couldn't care less' attitude will suffice; given the breadth of the discretion, all the circumstances should be considered; the court is also permitted to take into account other factors, such as injury to pride and dignity, as well as distress; where the defendant has been pursuing a profit; additional damages can take account of any benefit by the defendant; and another relevant factor is whether the defendant has attempted to destroy evidence of infringement and any attempt by the defendant to conceal the infringement through disingenuous correspondence will also be relevant.

¹⁰³⁴ For a useful table setting out awards of compensatory and additional damages, see Phillip Johnson, *Compounding Uncertainty* (n 18) 157.

¹⁰³⁵ *Absolute Lofts* (n 497).

¹⁰³⁶ *Henderson* (n 462).

¹⁰³⁷ *Ravenscroft v Herbert* [1980] RPC 193, at 208.

¹⁰³⁸ *Nottinghamshire Healthcare NHS Trust* (n 493) 52.

¹⁰³⁹ *Software Solutions* (n 535) 141.

HHJ Clarke concluded that the authorities provide that infringement can either be deliberate or reckless. In *PPL v Reader*¹⁰⁴⁰ where the defendant was in breach of a court order to prevent him playing unlicensed music in his premises, Mr. Justice Pumfrey citing *Sony Computer Entertainment v Owen*¹⁰⁴¹ holding that where an infringement of copyright was established to the standard required to support an application to commit for breach of an injunction, there was no arguable defence to a claim for copyright infringement and it was therefore appropriate to order (i) either an inquiry into additional damages or (ii) a summary award of additional damages to the copyright owner. The expenditure in investigating the defendant's unlawful activities was of a kind which could be recovered as damages for infringement and the additional damages were an amount equal to the licence fees unpaid at the time of the hearing of the committal application. In *PPL v Hagan*¹⁰⁴² the defendant was held to have been flagrant in his infringement, playing copyrighted music in his pubs without a licence and only dealing with the claimant as a last resort and when forced to do so. The court considered the issue of dissuasion and determined that it could take into account either the dissuasion to deter the defendant from infringing again, or to deter other actual or potential infringers from infringing, or both.¹⁰⁴³ The defendant was described as an 'illiterate alcoholic' who was bankrupt and unlikely to represent much of a threat of future infringement. However, other infringers, actual or potential were likely to be more robust than the defendant, both financially and in other ways and were likely to represent an example which others may be tempted to follow. They may require a good deal more persuading and were likely to expose themselves to an award of additional damages on a higher scale than the defendant, who was ordered to pay £2,000 additional damages, as well as £12,983 compensatory damages.

5.12 Conclusion

This chapter has explored the concept of punitive damages and the application of punitive damages in the UK. It considered the history of these controversial awards and the basis for them, which has lacked a clear and focused rationale. It has long been

¹⁰⁴⁰ *PPL v Reader* (n 280).

¹⁰⁴¹ *Sony Computer Entertainment* (n 533).

¹⁰⁴² *PPL v Hagan* (n 262).

¹⁰⁴³ *PPL v Hagan* (n 262 [25]-[27]).

the position in the UK that damages are compensatory, but the chapter has tracked the trajectory of purely compensatory damages through to the use of exemplary damages being used to compensate a claimant, where a purely compensatory award would result in an inadequate award. The normative basis for punitive awards has been uncertain and the courts have refused to order such damages where they are purely for punitive purposes, as opposed to them merely including a punitive element. Since the case of *PPL v Ellis*¹⁰⁴⁴ the punitive damages, known as additional damages in the UK, pursuant to section 97(2) of the CDPA 1988, have been acknowledged to be statute permitted, *sui generis* awards. Whilst their normative basis of additional damages may have been settled for now, they still exhibit substantial shortcomings, as there is no clear definition as to when they will be awarded or at what level they should be assessed. The existing legislation would benefit from specific reference to when they should be awarded and the government should provide legislative guidelines to assist in their application. Since *PPL v Ellis*¹⁰⁴⁵, the UK has taken a welcome step towards providing for punitive damages in an attempt to deter copyright infringement. In order to properly assess punitive damages in the UK, the following chapter considers the comparative position in Australia and the US and to look at what lessons, if any, can be learned from those jurisdictions.

¹⁰⁴⁴ *PPL v Ellis* (n 12).

¹⁰⁴⁵ *PPL v Ellis* (n 12).

Chapter Six

Punitive Damages in other jurisdictions

6.1 Introduction

This chapter will set out how punitive damages are awarded elsewhere, acting both as a comparator with the position in the UK and as a potential example for reform. It will first focus upon the position in Australia, followed by the US, which permits awards of statutory damages for IP infringement. It will consider how each jurisdiction applies punitive damages and the rationale in each case. Both Australia and the US are far more prolific than the UK, in awarding punitive damages and while Australia incorporates guidelines into its Copyright Act 1968, the US, like the UK, does not. Australia, like the UK, classes punitive damages as additional damages, but, in contrast to the UK's CDPA 1988, it has an explicit rationale of deterrence. The US 17 §504 Copyright Code, does not allow punitive damages for infringement, only statutory damages and these may be enhanced where the infringing act is wilful. The purpose of this chapter is to provide a comparative analysis of the normative basis and practical application of punitive damages in two jurisdictions that are compatible with, although not identical to, that of the UK and to assess whether the punitive element of damages in these jurisdictions can successfully deter copyright infringement.

6.2 Punitive Damages in Australia

The Empirical Study of Punitive Damages, undertaken in the UK in 2018,¹⁰⁴⁶ inspired a similar study in Australia, by Felicity Maher in 2019.¹⁰⁴⁷ Her study examined cases decided between 2000 and 2016, in all Australian jurisdictions, at all levels of court¹⁰⁴⁸ and it concluded that 'exemplary damages were alive and well in Australia.'¹⁰⁴⁹ The

¹⁰⁴⁶ Goudkamp & Katsampouka, 'An Empirical Study of Punitive Damages,' (2018).

¹⁰⁴⁷ Felicity Maher, 'An Empirical Study of Exemplary Damages in Australia,' (2019) 43(2) *Melbourne University Law Review* (advance), law.unimelb.edu.au.

¹⁰⁴⁸ Maher (n 1047) The study related to the cases that were available electronically, 1.

¹⁰⁴⁹ Maher (n 1047).

study was undertaken because the UK study was the first of its kind in that jurisdiction, or elsewhere in the common law world and in Australia, there has been no empirical study of exemplary damages, nor even a report by a law reform body, despite repeated calls for such a study.¹⁰⁵⁰ The report found that over the period of the study, exemplary damages were sought in 253 claims and awarded in 120 of those claims, yielding a success rate of just less than 50% (47.43%). The mean award was \$105,059.10 and the median award was \$26,853.86. By far the greatest number of claims were brought in New South Wales (108 claims or 42.69%) and the highest success rate was in the Northern Territory (two out of three claims, or 66.67%). The highest mean award was in the Commonwealth, being \$338,042.79. In relation to the categories of cause of action, across all jurisdictions, exemplary damages were most often sought in claims involving interference with the person, such as assault or false imprisonment, but they were most often awarded where the claim involved both interference with the person and interference with property, such as trespass. The highest awards on average, were also made in the interference with property claims, such as intellectual property.¹⁰⁵¹

The findings of the Australian study were compared to the UK study, which was conducted over a very similar period of time. The number of claims was greater in Australia, at 253, compared to 146 in the UK. The success rate was also higher in Australia, at 120/253 (47.43%) compared to 58/146 (39.72%) in the UK. The amount of exemplary damages awarded was greater in Australia: \$105,059.10 overall mean award and \$26,853.86 overall median award, compared to £12,625 (\$23,275.13) mean award and £7,630 (\$14,063.09) median award in the UK. This indicates that the Australian mean award is about 4.5 times greater than in the UK and its median award is almost twice as large as that of its UK counterpart. The findings show that in Australia, exemplary damages are claimed more often and awarded more often and in greater amounts than in the UK, a finding that Maher did not consider surprising, because notwithstanding the significant statutory intervention in Australia, which limited or excluded the availability of exemplary damages, beyond claims subject to limitation by that legislation, the Australian approach to exemplary damages is much

¹⁰⁵⁰ Maher (n 1047) footnotes 2 and 9 for academic calls for such a study.

¹⁰⁵¹ Maher (n 1047) 45.

less restrictive than in the ‘parsimonious’¹⁰⁵² *Rookes v Barnard*¹⁰⁵³ approach still followed in the UK.¹⁰⁵⁴ However, that has started to change since the decision in *PPL v Ellis*.¹⁰⁵⁵

6.3 The statutory position in Australia

The legislation in Australia is contained in the Copyright Act 1968, in section 115, which is explicit in stating the remedies that the court can order under sub-section (2), and includes injunctive relief subject to the terms that the court thinks fit and either damages or an account of profits, with no ambiguity as to whether they can both be ordered. Similarly, sub-sections (3) and (4) are clear in that the act of infringement has to be established, with clarity as to the remedies that can be ordered against an infringer who had no awareness or suspicion that their act constituted an infringement of copyright. Section 115(3) allows an account of profits, but no damages where the requisite knowledge was absent. Section 115(4) includes guidelines for the court to take into account in making an award of additional damages, unlike the CDPA 1988 in the UK. The pre-requisite for an award of additional damages is the establishment of copyright infringement¹⁰⁵⁶ and the court being satisfied that it is proper to make such an award¹⁰⁵⁷ after having regard to (i) the flagrancy of the infringement, and (ia) the need to deter similar infringements of copyright and (ib) the conduct of the infringer after the infringing act, or where relevant, after he was informed that he had allegedly infringed, (ii) whether the infringement involved the conversion of a work or other subject matter from hard copy or analog form into a digital or other electronic machine-reading form, and (iii) any benefit shown to have accrued to the defendant by reason of the infringement and (iv) all other relevant matters. The Australian legislation is explicit in the need for deterrence when making such an award and there

¹⁰⁵² Andrew Phang and Pey-Woan Lee, ‘Restitutionary and Exemplary Damages Revisited’ (2003) 19(1) *Journal of Contract Law*, 1 at 18.

¹⁰⁵³ *Rookes v Barnard* (n 423).

¹⁰⁵⁴ Maher (n 1047) 42.

¹⁰⁵⁵ *PPL v Ellis* (n 12).

¹⁰⁵⁶ The Copyright Act 1968, s 115(4)(a).

¹⁰⁵⁷ The Copyright Act 1968, s 115(4)(b). This section was amended by the Copyright Amendment (Digital Agenda) Act 2000 and again in 2003, by the Copyright Amendment (Parallel Importation) Act 2003, which added a number of additional matters to which the court could have regard when considering whether it was ‘proper’ to award additional damages.

are extra guidelines for assessing the additional relief for electronic commercial infringement under sub-sections (5) to (7) if the court is satisfied that an infringement occurred.¹⁰⁵⁸ There is also no distinction between undertaking the infringing act and the authorisation of such an act for the purposes of such an infringement. Under sub-section 5(b), the infringement has to involve a communication of the work or other subject matter to the public and unlike in the UK, there is a presumption of commercial scale in that as the work was communicated to the public it is likely that there were other infringements of the copyright that the plaintiff did not prove in the action and therefore, taken together, both the proved and likely infringements were on a commercial scale.¹⁰⁵⁹ Further guidelines are included under section 115, in relation to the assessment of additional damages, in that the court is permitted to have regard to the likely infringements, as well as the proved infringements in deciding what relief should be granted to the plaintiff. In the consideration of commercial scale under section 115(7), the volume and value of the infringing articles that have actually been proved in the action, or assuming that the likely infringements occurred, the value and volume of those and any other relevant matter.¹⁰⁶⁰

The legal principles that govern awards of exemplary damages in Australia have evolved since *Rookes v Barnard*.¹⁰⁶¹ The concept of these damages was first considered in 1920, in the case of *Whitfield v De Lauret & Co Ltd*¹⁰⁶² when the court set the test for exemplary damages to be available 'where the defendant has undertaken conscious wrongdoing and contumelious disregard of another's rights,' but it was in *Uren v John Fairfax & Sons Pty Ltd*¹⁰⁶³ that the law in Australia digressed from the position in the UK. In *Uren*, the High Court held that the restrictive approach to exemplary damages did not apply in Australia, with the three category approach, of the statutory availability of exemplary damages; oppressive, arbitrary or unconstitutional acts by a servant of the government, or cynical calculation by the defendant that his conduct might well exceed the compensation payable to the claimant,¹⁰⁶⁴ were not necessary

¹⁰⁵⁸ The Copyright Act 1968, s 115(5)(a).

¹⁰⁵⁹ The Copyright Act 1968, s 115(5)(c) and (d).

¹⁰⁶⁰ The Copyright Act 1968.

¹⁰⁶¹ *Rookes v Barnard* (n 423).

¹⁰⁶² *Whitfield v De Lauret & Co Ltd* (1920) 29 CLR 71, at 77 (Knox CJ).

¹⁰⁶³ *Uren* (n 890).

¹⁰⁶⁴ *Rookes v Barnard* (n 423) 1126-7, (Lord Devlin).

to attract an award of exemplary damages. Provided the *Whitfield* test¹⁰⁶⁵ was satisfied, exemplary damages would be available in any cause of action. Tilbury and Luntz¹⁰⁶⁶ have suggested that the modern tendency in Australia is to 'embrace, or at least to concede' exemplary damages, but the situation has remained that the *Whitfield* test will be applied¹⁰⁶⁷ subject to statutory intervention and exemplary damages will be available in any type of claim, even for unintentional torts such as negligence,¹⁰⁶⁸ but not breach of contract or equitable wrongdoing.¹⁰⁶⁹ Maher notes that exemplary damages are available in Australia against the wrongdoer's insurer¹⁰⁷⁰ or a vicariously liable employer¹⁰⁷¹ and whilst the punishment and deterrence functions will be absent in such situations, they may have the benefit of preventing the plaintiff from engaging in revenge against the wrongdoer.¹⁰⁷²

The Australian courts take many factors into consideration when assessing exemplary damages and these appear to provide some informal guidelines for the court in making such an assessment, in addition to those set out in section 115. The factors that the court has relied upon, include all aggravating and mitigating factors,¹⁰⁷³ the means of the defendant,¹⁰⁷⁴ and whether any other substantial punishment has been imposed, such as a criminal penalty.¹⁰⁷⁵ There is no explicit proportionality requirement between exemplary and compensatory damages,¹⁰⁷⁶ but the courts must achieve moderation in the assessment of exemplary damages.¹⁰⁷⁷ In Australia damages are available as of right, unlike discretionary remedies such as injunctions or an account of profits.¹⁰⁷⁸ Injunctions are not incompatible with the other two remedies and if an injunction is granted it may, if promptly complied with, significantly reduce the proper

¹⁰⁶⁵ *Whitfield* (n 1062).

¹⁰⁶⁶ Michael Tilbury and Harold Luntz, 'Punitive Damages in Australian Law' (1995) 17(4) *Loyola of Los Angeles International and Comparative Law Journal* 769, at 769.

¹⁰⁶⁷ *Gray v Motor Accident Commission* (1998) 196 CLR 1, 6 [12], 9 [20].

¹⁰⁶⁸ *Gray* (n 1067) 9-10.

¹⁰⁶⁹ Maher (n 1047) 6.

¹⁰⁷⁰ See *Lamb v Cotogno* (1987) 164 CLR 1, 9.

¹⁰⁷¹ *Zorom Enterprises Pty Ltd v Zabow* (2007) 71 NSWLR 354, 366-7 [44]-[46].

¹⁰⁷² *Zorom* (n 1071).

¹⁰⁷³ *Fontin v Katapodis* (1962) 108 CLR 177, 186-7.

¹⁰⁷⁴ *XL Petroleum (NSW) Pty Ltd v Caltex Oil (Australia) Pty Ltd* (1985) 155 CLR 448, 463.

¹⁰⁷⁵ *Gray* (n 1067) 14, [40]-[43].

¹⁰⁷⁶ *XL Petroleum* (n 1074).

¹⁰⁷⁷ *XL Petroleum* (n 1074) 463 (Gibbs CJ).

¹⁰⁷⁸ See *LED Builders Pty Limited v Masterton Homes (NSW)* (1994) 54 FCR 196, at 197.

quantum of any damages and additional damages orders.¹⁰⁷⁹ As in the UK, an account of profits is intended to deprive the infringer of his ill-gotten gains¹⁰⁸⁰ and if the plaintiff elects to have an award of damages, he cannot then also claim an account of profits as additional damages, on the basis that they were a benefit obtained by reason of the infringement, as section 115(4)(b)(iii) of the Copyright Act 1968 only comes into play after the right holder has elected for damages, rather than an account of profits.¹⁰⁸¹

Australia still permits damages to be awarded for conversion,¹⁰⁸² but if the damages are awarded on that basis, the relevant measure is the same as for conversion at common law, 'by reference to the market value of the goods converted.'¹⁰⁸³ The remedy under section 116(1) of the Act, the recovery of any infringing copies or devices for making them, is available in addition to any order under section 115. Any award that is made under the general provisions of IP statutes, other than for additional damages, will be awarded as compensation¹⁰⁸⁴ rather than on a punitive basis. At common law, the Australian courts also permit damages for damage to reputation,¹⁰⁸⁵ as well as aggravated damages to compensate the plaintiff when the harm done to him by a wrongful act was aggravated by the manner in which the act was done.¹⁰⁸⁶ The court will have to estimate damages if they cannot be calculated with any precision, as a degree of speculation and guesswork is involved.¹⁰⁸⁷

Australia distinguishes compensatory damages from additional damages, which have been recognised as an independent form of financial relief,¹⁰⁸⁸ similar to the situation in the UK.¹⁰⁸⁹ Their purpose is to punish and deter the defendants from further

¹⁰⁷⁹ *Coles v Dormer* (2015) 117 IPR 184, at [84] and [85] (Henry J).

¹⁰⁸⁰ *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd* (1968) 122 CLR 25, at 32.

¹⁰⁸¹ *Facton Ltd v Rifaj Fashions Pty Ltd* (2012) 199 FCR 569, at [37] and [106].

¹⁰⁸² *International Writing Institute Inc v Rimila Pty Limited* [1995] 57 FCR 135, at 139.

¹⁰⁸³ *Infabrics Ltd v Jaytex Ltd* [1982] AC 1 at 26

¹⁰⁸⁴ *Coles* (n 1079).

¹⁰⁸⁵ See *Prior v Lansdowne Press Pty Ltd* [1977] VR 70 and *TS & B Retail Systems Pty Ltd v 3Fold Resources Pty Ltd (No. 3)* (2007) 158 FCR 444, 239 ALR 117, at [205].

¹⁰⁸⁶ *Uren* (n 890) 149.

¹⁰⁸⁷ *Hugo Boss* (n 1087) [27].

¹⁰⁸⁸ *Autodesk* (n 1088) 738-9.

¹⁰⁸⁹ *Cala Homes* (n 936) [43] (Laddie J), who referred to additional damages as being 'a head of relief independent of and not dependent upon whatever form of financial relief the plaintiffs seek.'

infringing conduct.¹⁰⁹⁰ They exist to allow the courts to grant ‘something equivalent to exemplary damages’ where awards of general damages might be thought to be inadequate.¹⁰⁹¹ Prior to the 1968 Copyright Act, there was no statutory basis for additional damages and they were not contained within the Australian Copyright Act 1912. The Spicer Committee Report¹⁰⁹² recommended that Australia enacted a provision similar to section 17(3) of the UK Copyright Act 1956, to permit what is described as exemplary damages, where the court considers such a remedy appropriate having regard to the flagrancy of the infringement and any benefit accruing to the infringer. The Committee considered that these damages would be particularly useful where a performing right has been infringed, with the event having occurred and it being difficult to assess the loss in precise financial terms. When the Copyright Amendment (Parallel Importation) Act 2003 was enacted¹⁰⁹³ which added further factors that the court could take in to account when considering the appropriateness of making an award of additional damages, a Supplementary Explanatory Memorandum accompanying it, made it clear that there was a punitive rationale behind additional damages. The Memorandum made reference to the amendments encouraging the civil courts to consider the assessment and award of additional damages for serious infringement, as the law allowed such damages to punish or make an example of undesirable conduct. It noted that prior to those amendments, additional damages could be awarded in certain circumstances, with the main element being for ‘flagrancy,’ the two further factors; the deterrence of similar infringement and the defendant’s conduct following awareness of the infringement, was an approach which effectively targeted and penalised serious copyright infringement and avoided the arbitrary application of alternative deterrent approaches such as fixed statutory amounts. The approach that the new legislation took, provided the court with flexibility in making such awards, but it is arguable that the approach remained arbitrary as there was no minimum or maximum damages to ensure consistency. That could be addressed with the use of guidelines.

¹⁰⁹⁰ *Halal Certification Authority Pty Limited v Scadilone Pty Limited* [2014] FCA 614 at [96]-[98].

¹⁰⁹¹ Report of the Copyright Law Review Committee 1959 (‘Spicer Committee Report’), para 309.

¹⁰⁹² Spicer Committee Report (n 1091).

¹⁰⁹³ Spicer Committee Report (n 1091).

In the UK, the basis of additional damages, since the case of *PPL v Ellis*,¹⁰⁹⁴ has been statute permitted, *sui generis* in nature, not compensatory. In Australia, they are also statute based and it is clear that additional damages are to operate as a deterrent and to make infringement unattractive, not to compensate an applicant's loss.¹⁰⁹⁵ The very description of the term 'additional damages' implies that they cannot be awarded on a stand alone basis, although they could be made if any other type of relief was awarded, whether injunctive, declaratory relief or nominal damages.¹⁰⁹⁶ Additional damages cannot be made with an account of profits¹⁰⁹⁷ and a distinction can be made between 'a benefit accruing to the defendant' and net profits which the defendant might earn by the infringement. The latter would be caught by an action for accounting, but the former could extend to such matters as the acquisition of an enhanced position in the market which would not be included in a calculation of the net profits.¹⁰⁹⁸ The court has accepted that claimants are likely to elect an award of damages rather than an account of profits, as additional damages do not lie where an account of profits is claimed.¹⁰⁹⁹ The benefit for the claimant, is that they do not have to produce detailed evidence of their lost profits, although additional damages can only be awarded if the conditions in the relevant sections of legislation are met. In *Prior v Lansdowne Press Pty Ltd*¹¹⁰⁰ the court stated that '...before additional damages can be awarded under section 115 it would be necessary for the plaintiff to establish the conditions which enable the court to assess such damages. The material condition is that set out in paragraph (b) of section 115(4)...I have come to the conclusion that the evidence as to the publication shows primarily a case of mistake and perhaps carelessness, but it does not show a case of flagrancy or calculated disregard of the plaintiff's rights, or cynical pursuit of benefit, or other matter justifying the award of additional damages going beyond what is required for compensation.' The plaintiff bears the burden of proof that the conditions justifying an award of additional damages are satisfied. 'There must be something more than is sufficient to justify a

¹⁰⁹⁴ *PPL v Ellis* (n 12).

¹⁰⁹⁵ *Hugo Boss* (n 1087)[99], citing *Halal Certification* (n 1090).

¹⁰⁹⁶ *Polygram Pty Ltd v Golden Editions Pty Ltd* (1997) 76 FCR 565, at 573 (Lockhart J). See also *Futuretronics .com.au Pty Ltd v Graphix Labels Pty Ltd (No. 2)* (2008) 76 IPR 763, at [17] (Bersanko J).

¹⁰⁹⁷ *Redrow Homes Ltd* (n 472) 209.

¹⁰⁹⁸ *Redrow Homes Ltd* (n 472) 391-93 (Lord Clyde).

¹⁰⁹⁹ *Aristocrat Technologies Australia Pty Ltd v DAP Services (Kempsey) Pty Ltd* (2007) 157 FCR 564; (2007) 239 ALR 702, at [24].

¹¹⁰⁰ *Prior v Lansdowne* (n 1085) 689 (Gowans J).

possible view of the defendant's conduct, it must be sufficient to establish a persuasive conclusion,'¹¹⁰¹

The need for the court to have regard to all the factors set out in section 115(4) of the Copyright Act 1968 is mandatory and they have to be considered before the court can assess whether it is 'proper' to make an award of additional damages. However, it is not necessary for all factors to apply to a given case. If the court is satisfied that *one or more* of the circumstances set out in subsection (4)(b) of section 115 are present, it has the discretion to award such damages as it considers appropriate.¹¹⁰² It has been held by various courts that additional damages may be awarded on similar principles to aggravated and exemplary damages at common law,¹¹⁰³ but as additional damages are *sui generis*, they will be awarded as such¹¹⁰⁴ and are not constrained by the same common law principles that may restrict awards of aggravated or exemplary damages.¹¹⁰⁵ The factors in section 115(4) are non exclusive and wide in nature, with the additional factor of 'all other relevant matters' enhancing the court's discretion. The court can increase or reduce the potential award of additional damages according to the level of compensation awarded, depending on the need in any given case, to punish and deter the defendant,¹¹⁰⁶ or to show the court's disapproval of the defendant's conduct.¹¹⁰⁷ In *Autodesk v Yee*¹¹⁰⁸ the court held that 'An element of penalty is an accepted feature of copyright legislation. The infringer has been regarded, at least since the 18th century, as a 'pirate' who ought to be treated accordingly.' This is perhaps why the court will not reduce an award of additional damages as a result of fault on the part of the claimant.¹¹⁰⁹

¹¹⁰¹ *Prior v Lansdowne* (n 1085) 689.

¹¹⁰² *Raben Footwear Pty Ltd v Polygram Records Inc* (1997) 75 FCR 88, at 103 (Tamberlin J).

¹¹⁰³ *Bailey v Namol Pty Limited* (1994) 53 FCR 102, at 113-114; *Aristocrat Technologies Australia Pty Ltd* (2007) 157, FCR 564; (2007) 239 ALR 702, at [42]; *Facton Ltd* (2012) 199 FCR 569, at [33]-[36]; *Autodesk v Yee* (n 1088) 394.

¹¹⁰⁴ *Facton Ltd* (n 1081); *Truong Giang Corporation v Quach* [2015] FCA 1097.

¹¹⁰⁵ See *FHN Investments Pty Ltd v Sullivan* [2003] FCAFC 246 at [26]-[27];

¹¹⁰⁶ *Pacific Enterprises (Aust) Pty Ltd v Bernen Pty Ltd* (2014) 321 ALR 715; [2014] FCA 1372, at [15] (Pagone J).

¹¹⁰⁷ *Sony Entertainment v Smith* [2005] FCA 228, at [167].

¹¹⁰⁸ *Autodesk* (n 1088) 418,

¹¹⁰⁹ *Columbia Picture Industries Inc and Tri-Star Pictures Inc v Luckins* (1996) 34 IPR 504; [1996] FCA 1606 at [46], where the court refused to reduce the amount of additional damages to any significant extent 'just because the damages arose from a substantial delay on the part of the applicants in commencing proceedings.'

Section 115(4)(b) of the Australian Copyright Act 1968, contains six factors that the court is required to have regard to, when assessing whether to make an award of additional damages. ‘Having regard to the factors,’ means that the court must take them into account and give weight to them.¹¹¹⁰ The first factor that the court must consider, is that of flagrancy, which is only one consideration for the court, rather than the sole pre-condition or main factor. It could be described as *primus inter pares*, or first among equals, in the list of matters in section 115(4)(b), as the courts have awarded damages where flagrancy has been absent from the case.¹¹¹¹ There are varying definitions of the term ‘flagrancy’ in the Australian cases, such as conduct which is ‘glaring, notorious, scandalous or blatant,’¹¹¹² ‘calculated disregard of the plaintiff’s rights, or cynical pursuit of benefit,’¹¹¹³ ‘the existence of scandalous conduct, deceit and such like and it includes deliberate and calculated copyright infringement’¹¹¹⁴ The relevant flagrancy, is flagrancy of the infringement in issue,¹¹¹⁵ mere knowledge of copying¹¹¹⁶ or a mistaken belief by the defendant that they owned the copyright, is not flagrancy.¹¹¹⁷ The distinction between exemplary damages and additional damages, is that the latter does not require proof of contumelious disregard of the claimant’s rights on the part of the infringer.¹¹¹⁸

6.4 Australian case law

Australian case law has made reference to the need to include both specific and general deterrence when assessing additional damages. In *Henley Arch Pty Ltd v Lucky Homes Pty Ltd*¹¹¹⁹ the court held that while the ‘modest amount’ awarded was a sufficient specific deterrent, awarding less would not be sufficient general deterrence

¹¹¹⁰ *Futuretronics .com.au Pty Ltd* (2008) 76 IPR 763, at [53].

¹¹¹¹ *Raben Footwear* (n 1102) 93; *Polygram Pty Ltd v Golden Editions* (1997) 76 FCR 565, at 575; *Flags 2000 Pty Ltd v Smith* [2003] FCA 1067, at [32].

¹¹¹² *Raben Footwear Pty Ltd* (n 1102) 103.

¹¹¹³ *Prior v Lansdowne* (n 1085) 70.

¹¹¹⁴ *Ravenscroft v Herbert & New English Library Ltd* [1980] RPC 193, at 208.

¹¹¹⁵ *Woolworths v Olsen* (2004) 184 FLR 121 at [345]-[348].

¹¹¹⁶ *International Writing Institute Inc v Rimila Pty Ltd* (1994) 30 IPR 250; [1994] FCA 1509 at [19] (Lockhart J).

¹¹¹⁷ *Prior v Lansdowne* (n 1085).

¹¹¹⁸ *Luxottica Retail Australia v Grant* [2009] NSWSC 126; (2009) 81 IPR 26 at [39].

¹¹¹⁹ *Henley Arch Pty Ltd v Lucky Homes Pty Ltd* [2016] FCA 1217, at [259] and [262] (Beach J).

and in *Microsoft Corporation v Ezy Loans Pty Ltd*¹¹²⁰ the court stated that ‘it is important to more than the applicants, that copyright infringers are not encouraged to think that by ignoring court proceedings they can escape the consequences of calculated infringement of the rights of others in the pursuit of profits.’ The explicit inclusion of the need to deter infringement in the Copyright Act after the 2003 amendments¹¹²¹ made explicit, what was already being practiced by the courts, before that date.¹¹²² Similarly, the inclusion into the legislation, of the conduct of the defendant after the infringement, or after being informed that there had been an infringing act, as a factor to which the court must have regard, was an explicit acknowledgment of what the courts had been doing prior to 2003. Examples of such conduct are continuing infringements,¹¹²³ especially with a defiant attitude.¹¹²⁴ In the latter case, additional damages were awarded partly, because the infringement included the conversion of the claimant’s photographs from hardcopy to a digital format for use in their brochures and on-line advertising, thus breaching the factor in section 115(4)(b)(ii) of converting a hardcopy or analog work or other subject matter into a digital or other electronic machine-readable form.

As with section 97(2) of the CDPA 1988 in the UK, the Australian Copyright Act 1968 takes account of any benefit accrued to the infringer as a result of the infringing act. This is a factor which differs from an assessment as to an account of damages, because it is only relevant to whether an award of additional damages *should* be made, not an assessment of an amount of compensatory damages. This has already been discussed in the context of an account of profits being incompatible with an award of additional damages. In the context of section 115(4)(b), any form benefit accruing to the defendant can be taken into account, not only financial benefit.¹¹²⁵ This can include a commercial advantage against competitors,¹¹²⁶ such as free pirated copies of the claimant’s computer programs, when the defendant’s computers were purchased and the attraction of custom by using the claimant’s photos on the defendant’s website.¹¹²⁷

¹¹²⁰ *Microsoft Corporation v Ezy Loans Pty Ltd* (2004) 63 IPR 54; [2004] FCA 1135, at [95] (Stone J).

¹¹²¹ *Microsoft Corporation* (n 1120) [95].

¹¹²² See *Microsoft Corporation* (n 1120) and *Bailey v Namol* (1994) 53 FCR 102.

¹¹²³ *Milpururru v Indofurn Pty Ltd* (1994) 54 FCR 240; 130 ALR 659.

¹¹²⁴ *FNH Investments Pty Ltd v Sullivan* [2003] FCAFC 246 at [10]-[17].

¹¹²⁵ *Polygram Pty Ltd* (1997) 76 FCR 565, at 576 (Lockhart J).

¹¹²⁶ *Autodesk Australia Pty Ltd v Cheung* (1990) 94 ALR 472.

¹¹²⁷ *Sullivan v FNH Investments Pty Ltd t/a Palm Bay Hideaway* (2003) 57 IPR 63; [2003] FCA 323 at [97].

The existence of 'benefit' accrued to the infringer, is sufficient in itself, to merit an award of additional damages¹¹²⁸ and that benefit does not need to be quantifiable,¹¹²⁹ but the basis is punishment not to deprive the infringer of any financial benefits.¹¹³⁰ The 'catch all' factor in section 115(4)(b) of the 1968 legislation is 'all other relevant matters.' This factor is similar to all the circumstances of the case and the court is required to have regard to these matters, but no findings need to be specifically made in respect of them.¹¹³¹ Examples of such matters include the duration of the infringement, especially if the defendant had the requisite knowledge and a licence could have been obtained,¹¹³² or the involvement of the defendant in previous infringements¹¹³³ and the co-operation or otherwise of the defendant in the litigation.¹¹³⁴

In Australia, the court must do its best to settle upon an appropriate figure in light of all the available evidence¹¹³⁵ and each case turns on its own facts. The level of additional damages should be moderate but not excessive and the court has a very wide discretion, which may lead to arbitrary awards, in the sense that it is impossible to demonstrate its correctness by reference to provable fact.¹¹³⁶ There is also no requirement for proportionality between compensatory and additional damages¹¹³⁷ and this is reflected in the fact that additional damages can be awarded where the compensatory damages are nominal only. The courts will have regard to the impact of the award of additional damages on the infringer and that is relative, with an infringer of substantial means being less affected by an award than an infringer with limited financial resources.¹¹³⁸ In such circumstances the concept of marginal deterrence will be relevant. In Australia, the court will take into account aspects such as the size and

¹¹²⁸ *Acohs Pty Ltd v Ucorp Pty Ltd (No 5)* [2013] FCA 1006 at [52] (Jessup J).

¹¹²⁹ *Spotless Group Limited v Blanco Catering Pty Ltd* [2011] FCA 979, at [138].

¹¹³⁰ *Facton* (n 1081)[40].

¹¹³¹ *Flags 2000* (n 1111) [32] (Goldberg J).

¹¹³² *Australasian Performing Right Association Limited v Riceboy Pty Limited* [2011] FMCA at [29].

¹¹³³ *Microsoft Corporation* (n 1120).

¹¹³⁴ *Autodesk Australia Pty Ltd* (n 1126) 479 (Wilcox J).

¹¹³⁵ *Australia Performing Right Association v Riceboy* (n 1132) [89].

¹¹³⁶ *Autodesk Australia* (n 1126) 479-80 (Wilcox J).

¹¹³⁷ *Raben* (n 1102) [52].

¹¹³⁸ *Pacific Enterprises* (n 1106) [15].

nature of the infringer's business¹¹³⁹ and no greater punishment should be imposed than the criminal law permits as there should be no doubling up of awards.¹¹⁴⁰

A table of Australian cases has been compiled by Phillip Johnson,¹¹⁴¹ which sets out both the compensatory awards and the additional damages awards, if any, that the courts have awarded. The courts generally appear to have made substantial awards for additional damages, even where the compensatory awards are nominal.¹¹⁴² There appears to be a considerable variation of awards for punitive damages generally, ranging from a few hundred dollars to AU\$3.5 million,¹¹⁴³ even when the case involves the same plaintiff and similar facts.¹¹⁴⁴ This suggests that the guidelines under section 115(4)(b) of the Copyright Act 1968 have made punitive awards more likely and this has resulted in a more diverse range of awards, which may not be proportionate to either the compensatory aspects of the awards or to the conduct in general and much will depend on the individual judge in the case. Australia would therefore benefit from further guidelines to assist with the quantification of these awards. The Australian model of awarding punitive damages may not be an example of perfection, but it is more advanced in its normative basis than the system in the UK and therefore arguably offers a sufficient punitive element to successfully deter infringement.

6.5 *Punitive Damages in the US*

The earlier part of this chapter considered the origins of punitive damages, which were recognised in the UK under English common law,¹¹⁴⁵ before the US adopted them in the 1800's. In *Genay v Norris*¹¹⁴⁶ US Supreme Court awarded the plaintiff punitive damages because of injuries received after drinking wine that had been tampered with

¹¹³⁹ *Truong Giang Corp v Quach* [2015] FCA 1097 at [142].

¹¹⁴⁰ *Facton Ltd* (n 1081) [10].

¹¹⁴¹ Phillip Johnson, *Compounding Uncertainty* (n 18) 158.

¹¹⁴² See *Allam v Aristocrat Technologies* [2012] FCAFC 34: \$1 compensatory award with \$440.00 for additional damages; *APRA v Dion* [2016] FCCA 2330: none or nominal compensatory damages with \$400,000 additional; *Aristocrat Technologies v D.A.P. Services* [2007] FCAFC 40: \$1 compensatory damages with \$200.00 in additional damages; *Vivid Entertainment Systems v Digital Sinema* [2007] FMCA 748: \$1 compensatory award with \$500,000 additional damages.

¹¹⁴³ See Phillip Johnson, *Compounding Uncertainty* (n 18) 155.

¹¹⁴⁴ Phillip Johnson, *Compounding Uncertainty* (n 18) 155.

¹¹⁴⁵ See *Huckle v Money* (n 871); *Wilkes v Wood* (KB 1763) 98 Eng Rep 489.

¹¹⁴⁶ *Genay v Norris* (n 872).

by the defendant as a practical joke and by 1851, they stated that the doctrine of punitive damages had received support from “repeated judicial decisions for more than a century.”¹¹⁴⁷ At this stage, punitive damages were increasingly becoming an established feature of US tort law, with the courts emphasising their punishment purpose. In 1864, the court stated that ‘Where the wrong is wanton, or it is wilful, the jury is authorised to give an amount of damages beyond the actual injury sustained as a punishment and to preserve the public tranquility,’¹¹⁴⁸ while Justice Scalia, of the US Supreme Court concurred in a much later case,¹¹⁴⁹ that ‘In 1868 therefore, when the Fourteenth Amendment was adopted, punitive damages were undoubtedly an established part of American common law of torts.’ Punitive damages in the US did not proceed without criticism, with concern focusing on whether they could be awarded for non compensatory purposes.¹¹⁵⁰ In an 1873 case,¹¹⁵¹ the court stated that “the idea of punitive damages is wrong. It is a monstrous heresy. It is an unsightly and unhealthy excrescence, deforming the symmetry of the body of the law.” Notwithstanding that view, by 1935, all US states other than Louisiana, Massachusetts, Nebraska and Washington, had adopted some form of punitive damages, if the defendant’s conduct was malicious, wilful, wanton, oppressive or outrageous.¹¹⁵²

6.6 *The statutory position in the US*

The Copyright Law of the United States and Related Laws Contained in Title 17 of the United States Code¹¹⁵³ (The Code) contains the US Copyright Act 1976 and all subsequent amendments. Copyright Law is a federal matter and is set out in Federal laws enacted by Congress. The basis of copyright protection in the US is contained in the US Constitution, Article 1, section 8, which states ‘The Congress shall have power...to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and

¹¹⁴⁷ *Day v Woodworth* (1851) 54 US 363, 371.

¹¹⁴⁸ *Hawk v Ridgway* (1864) 33 Ill 473, 476.

¹¹⁴⁹ *Pacific Mut. Life Ins. Co. v Haslip* (1991) 499 US 1, 26, 113 L Ed 2d 1, 25, 111 S Ct 1032.

¹¹⁵⁰ Owen, *Punitive Damages* (n 864).

¹¹⁵¹ *Fay v Parker* (1873) 53 NH 342.

¹¹⁵² Owen, *Punitive Damages* (n 864).

¹¹⁵³ Copyright of the United States and Related Laws, Title 17 of the United States Code, Circular 92, 17 October 2022.

discoveries.’ Chapter Five of the Code at section §504¹¹⁵⁴ contains the provisions relating to the remedies for infringement of those rights, in respect of damages and profits.¹¹⁵⁵ Unlike the UK, the US permits the court to award the copyright owner’s actual damages, as well as any additional profits¹¹⁵⁶ that are attributable to the infringement. Section §504(b) provides that the recoverable profits are those which are not taken into account in computing the actual damages. The section sets out the evidential burden on the plaintiff, which is to present proof only of the infringer’s gross revenue, with the burden then being on the infringer to prove their deductible expenses and the elements of profit attributable to factors other than the copyright infringement. Damages awards are usually made by juries, following instruction from the judge.

Section §504(c)(1) provides as an alternative to damages and profits, statutory damages which the plaintiff may elect to recover, at any time prior to the final judgment.¹¹⁵⁷ The statutory damages cover all infringements involved in the action, with respect to any one work, for which any one of the infringers is liable individually, or for which two or more infringers are liable jointly and severally. The base figure for such damages is \$750, with the maximum being \$30,000 as the court considers to be just. Under section §504(2), where the case provides that it is for the plaintiff to prove that the infringer committed the infringement wilfully and if successful, the court can increase the amount of statutory damages awarded to a maximum of \$150,000.

Where the burden is on the infringer to prove that they were unaware or had no reason to believe that their acts constituted an infringement of the copyright, the court has the discretion to reduce the statutory damages to a sum as low as \$200.¹¹⁵⁸

The US Copyright Code has provision for what are described in section §504(d) as additional damages in certain cases, where the infringer of an establishment who

¹¹⁵⁴ Copyright of the United States, Title 17, Circular 92, October 2022, 197.

¹¹⁵⁵ Copyright of the United States, Title 17, Circular 92, October 2022, 200-202.

¹¹⁵⁶ 17 US Copyright Code, § 504(a) and (b).

¹¹⁵⁷ Statutory damages are available if the copyright was registered within three months of publication or before the infringement. See *Fourth Estate Pub. Ben. Corp. v Wall-Street.com, LLC* – 139 S. Ct. 881 (2019) where the Supreme Court held that a copyright infringement suit cannot be initiated until the copyright is registered successfully by the US Copyright Office, under section §411(a). The registration application must have been processed not merely registered.

¹¹⁵⁸ 17 U.S. Copyright Code §504(2) permits the court to remit the award of statutory damages in certain circumstances, including the infringer’s belief that their use of the work constituted fair use.

claimed that its activities were exempt under section 110(5), did not have reason to believe that the use of the copyrighted work was exempt under that section. The plaintiff is then entitled to an additional award of two times the amount of the licence fee that then infringing proprietor should have paid the copyright holder for the use of the work, during the preceding period of up to three years, which is in addition to any award of damages. In the US, damages for copyright infringement can be very high. An example of this is the case of *Lowry's Reports Inc. v Legg Mason Inc.*¹¹⁵⁹ a case in which a lawsuit was filed by a stock analysis newsletter's publisher, against a company that bought one copy of the newsletter and made several copies for internal use. The jury awarded actual damages for some newsletters and statutory damages for the others, amounting to \$20 million.

The US Copyright Code is silent in respect of punitive damages and Congress made no explicit provision for them, the choice being damages and an account of profits *or* statutory damages. "The language is clear, unambiguous and exclusive: these are the alternatives available to a copyright plaintiff and punitive damages are not provided by either of them."¹¹⁶⁰ The discretionary increase in statutory damages under section §504(d) is a form of punitive award, but the policy behind that appears to be the encouragement of copyright registration. However, an account of profits would still be available to those who have not registered their copyright and in substantial cases the profits may far exceed the maximum statutory level of \$30,000. In *Oboler v Goldin*¹¹⁶¹ the Second Circuit Court of Appeals stated categorically that punitive damages were not available in statutory copyright actions and in *On Davis v The Gap*¹¹⁶² the same court explained that 'the purpose of punitive damages, to punish and prevent malicious conduct, is generally achieved through the provisions of 17 U.S.C. § 504 (c)(2), which allow increases to an award of statutory damages in cases of wilful infringement.' Federal courts have held that punitive damages cannot be recovered in

¹¹⁵⁹ *Lowry's Reports Inc. v Legg Mason Inc.* 271 F. Supp. 2d 737 (D.Md. 2003).

¹¹⁶⁰ *Leutwyler v Royal Hashemite Court of Jordan*, 184 F. Supp. 2d 303, 308 (S.D.N.Y. 2001).

¹¹⁶¹ *Oboler v Goldin*, 714 F.2d 211, 213 (2d Cir. 1983).

¹¹⁶² *On Davis v The Gap Inc.* 246 F.3d 152, 172 (2d Cir. 2001).

statutory copyright actions,¹¹⁶³ although other case law has determined that they are permissible.¹¹⁶⁴ There has been no general consensus on the issue.¹¹⁶⁵

Many academics have commented on damages in copyright infringement cases, such as Depoorter,¹¹⁶⁶ who has analysed 102 judicial decisions on copyright statutory damages between 2005-2008; Bell and Parchomovsky,¹¹⁶⁷ who proposed a copyright infringement liability regime, predicated on the infringer's degree of blameworthiness; Sholder & Edelstein,¹¹⁶⁸ who have considered a calculation of damages based on licensing fees; Ikeda & Mori,¹¹⁶⁹ who have analysed the decoupling of punitive damages under the adversarial system; Gotanda,¹¹⁷⁰ assessing aspects regarding the award of punitive damages and Hill and Wheatland¹¹⁷¹ who analysed statutory damages provisions in various countries. However, as Vasiu and Vasiu have noted,¹¹⁷² there has been no comprehensive analysis of the award of damages made. In analysing over 400 copyright cases, Vasiu and Vasiu attempted to provide a comprehensive assessment of the awards handed down for copyright infringement including in the U.S. What their work highlights¹¹⁷³ in relation to damages for copyright infringement generally, is the difficulty for the claimant in proving the losses sustained as a result of the infringement. Lost profits were considered to be especially problematic, as they are difficult and costly to prove and while there were a number of methodologies that were employed to calculate lost profits, none were widely accepted, or universally

¹¹⁶³ *Bucklew v Hawkins, Ash, Baptie & Co.* 329 F.3d 923, 931-32 (7th Cir. 2003); *Epcon Group Inc. v Danbury Farms Inc.* 28 Fed. Appx. 127, 130 (3d Cir. 2002); *Design Art v National Football League Props Inc.* No. 00CV593 JM, 2000 WL 1919787, at *5 (S.D. Cal. Nov, 2000). See also Melville Nimmer and David Nimmer, *Nimmer on Copyright* §14.02[B], at 14-29 (Matthew Bender & Co. 2004).

¹¹⁶⁴ See *Blanch v Koons*. 329 F. Supp. 2d 568 (S.D.N.Y. 2004); *Stehrenberger v R.J. Reynolds Tobacco Holdings, Inc.* 335 F.Supp. 2d 466 (S.D.N.Y.) 2004); *TVT Records v Island Def Jam Music Grp*, 262 F. Supp. 2d 185 (S.D.N.Y., 2003).

¹¹⁶⁵ *Bucklew v Hawkins* (n 11630).

¹¹⁶⁶ Depoorter, *Copyright Enforcement in the Digital Age* (n 73).

¹¹⁶⁷ Abraham Bell & Gideon Parchomovsky, *Restructuring Copyright Infringement*, 98 Tex. L. Rev. 679 (2020).

¹¹⁶⁸ Scholder J. Scott and Lindsay R Edelstein, *Determining a Reasonable Licensing Fee for Purposes of Copyright Damage Awards*, 27 BRIGHT IDEAS, 13 (2018).

¹¹⁶⁹ Yasuhiro Ikeda & Daisuke Mori, *Can Decoupling Punitive Damages Deter an Injurer's Harmful Activity?*, 11 Rev. L. Econ. 513 (2015).

¹¹⁷⁰ John Y. Gotanda, *Punitive Damages: A Comparative Analysis*, (2003) 42 COLUM. J. TRANSNAT'L L. 391.

¹¹⁷¹ Samuelson and others (n 309).

¹¹⁷² Vasiu and Vasiu (n 74).

¹¹⁷³ Vasiu and Vasiu (n 74) 128-130.

applicable, as the circumstances of each case were specific.¹¹⁷⁴ The authors considered how this worked in practice and concluded that it resulted in over-claiming, inconsistency and inefficiency. Where royalties are claimed and a licensing fee is the basis of that claim, there is no agreement as to which multiplier should be used, or the potential value of it. Problems also arose in using disgorgement of profits, as there were no clear guidelines or procedure as to how the claimant can apportion the infringer's gross revenue and the authors recommended that where a claimant has over-stated their losses, a reduction of the award, can and should be, considered.¹¹⁷⁵ The factors identified by the authors, as being negative in respect of awards for actual damages and profits, are similar to those identified in the last chapter, in respect of the UK. The lack of certainty, or universally accepted method of calculation reduces the efficacy of these remedies as a deterrent against future transgression by the infringer or other, potential infringers. Statutory damages may offer more certainty, but they are not universally available. In the US, they are also limited for copyright infringement, but not for tortious claims generally.

Mitch Stoltz considers that statutory damages have the potential to turn litigation "into a game of financial Russian roulette, or to allow for exploitative litigation business models."¹¹⁷⁶ They remain controversial¹¹⁷⁷ and it has been noted that such damages can far exceed the copyright owner's loss or the defendant's gain.¹¹⁷⁸ Statutory damages, unlike additional damages in the UK, are an alternative to actual damages and profits. They stand alone under US 17 §504(c)(1) and they are elected by the claimant in 90 per cent of US cases.¹¹⁷⁹ They avoid the conjecture that is deployed by the courts, as well as the prohibitive expense of proving the loss.¹¹⁸⁰ It is often the case that defendants fail to keep or retain accurate business records¹¹⁸¹ with the

¹¹⁷⁴ VasIU and VasIU, (2021), p 128.

¹¹⁷⁵ VasIU and VasIU, (2021), p 128.

¹¹⁷⁶ Mitch Stoltz, *The Key To Fixing Copyright Is Ending Massive Unpredictable Damages Awards*, ELECTRONIC FRONTIER FOUNDATION, 23 January 2020, <http://www.eff.org/ro/deeplinks/2020/01/key-fixing-copyright-ending-massive-unpredictable-damages-awards>.

¹¹⁷⁷ Depoorter, *Copyright Enforcement in the Digital Age* (n 73) 404-6.

¹¹⁷⁸ Mark A. Lemley, *Should a Licensing Market Require Licensing?* 70 LAW & CONTEMP. PROBS. 185, 197 (2007). See also, Peter S. Menell, *This American Copyright Life: Reflections on Re-equilibrating Copyright for the Internet Age*, 61 J. COPYRIGHT SOC'Y U.S.A. 235 (2014).

¹¹⁷⁹ Depoorter, *Copyright Enforcement in the Digital Age* (n 73) 407.

¹¹⁸⁰ See *Sony BMG Music ent. v Tenenbaum*, 721 F. Supp. 2d 85, 103 (D. Mass. 2010).

¹¹⁸¹ *Walt Disney Co. v Powell*, 897 F.2d 565, 567 (D.C. Cir. 1990).

claimant being faced with the difficulty of ascertaining the infringer's profits.¹¹⁸² In *Re Braun*¹¹⁸³ the court noted that "Congress labelled these damages as 'statutory' rather than 'punitive,' which suggests that they are not solely awarded for the sake of punishment, but also as compensation for unproven harm" That is not a good basis for an award of damages that should punish and deter. If harm cannot be proven, it should not be compensated. Punitive type damages should be awarded where the evidence shows that the defendant's conduct is such that he should be punished and deterred and that sets an example to other potential infringers. If harm cannot be proved, there is further difficulty in assessing the level of the statutory award, even with guidelines, as the conduct cannot be easily measured. In the US, while statutory damages are considered to be mainly compensatory or restitutionary in nature, they are also used to deter misconduct.¹¹⁸⁴ The court should consider both the wilfulness of the infringer's conduct and the deterrent value of the sanction imposed,¹¹⁸⁵ which equates with specific and general deterrence. Statutory damages therefore, are effective compensation and punishment awards,¹¹⁸⁶ a description which provides clear clarity of purpose. The courts should not provide the plaintiff with a windfall and each case should be assessed in line with what is appropriate to the individual case, "considering the nature of the copyright, the circumstances of the infringement and the like..."¹¹⁸⁷

Dan Markel has argued¹¹⁸⁸ that US states should understand and restructure punitive damages, in part, to advance the public's interest in retributive justice. It can be argued that if the public have no knowledge or understanding of the concept, punitive damages will have less impact on the goal of punishment, but more so, deterrence. Markel points out¹¹⁸⁹ that out that the Supreme Court has emphasised that punitive damages should be principally understood as 'quasi-criminal', 'private fines' designed

¹¹⁸² *Cable/Home Communication Corp. v Network Prods.* 902 F.2d 829, 840 (11th Cir. 1990). See also *Adobe Sys. Inc. v Software Tech*, No. 5:14-cv-02140-RMW (N.D. Cal. Nov. 10, 2015).

¹¹⁸³ *Re Braun*, 327 B.R. 447, 450 (Bankr. NB.D. Cal. 2005).

¹¹⁸⁴ *Lived In Images, Inc. v Noble Paint and Trim inc.*, No. 6:15-cv-1221-Orl-40DAB (M.D. Fla. Feb. 5, 2016).

¹¹⁸⁵ *Cable\Home Communication Corp.* (n 1182) 852.

¹¹⁸⁶ *Feltner v Columbia Pictures Television Inc.* 523 U.S. 340, 352 (1998).

¹¹⁸⁷ *Peer Int'L Corp. v Pausa Recs., Inc.*, 909 F.2d 1332, 1336 (9th Cir. 1990).

¹¹⁸⁸ Dan Markel, *Retributive Damages: A Theory of Punitive Damages as Intermediate Sanction*, 94 CORNELL L. REV. 239 (2009).

¹¹⁸⁹ Markel, *How should Punitive Damages Work?* (n 283).

to punish the defendant and deter the misconduct at issue.¹¹⁹⁰ He notes that although the courts frequently invoke the purposes of retribution and deterrence,¹¹⁹¹ and the ‘consensus today is that punitives are aimed not at compensation but principally at retribution and deterring harmful conduct’,¹¹⁹² they offer little analysis of these purposes or their implications. The court has long made it clear that ‘punitive damages may properly be imposed to further a states’ legitimate interests in punishing unlawful conduct and deterring its repetition.’¹¹⁹³ Markel gives as examples, of the court failing to instruct juries to parse the amount of money necessary to punish the defendant and the amount necessary to achieve deterrence. Moreover, they rarely distinguish between optimal deterrence, aiming at cost internalisation and complete deterrence, aiming at preventing the commission of similar conduct in the future.¹¹⁹⁴

6.7 US Case law

Markel has identified the constitutional framework which the US Supreme Court has begun to establish for the regulation of punitive damages.¹¹⁹⁵ The first, follows on from the decision in *State Farm Mut. Auto. Ins. Co. v Campbell*,¹¹⁹⁶ in which the court held that the rule was that punitive damages should only be awarded where the defendant’s conduct is so reprehensible that it justified an award in addition to compensatory damages, although the amount must not be constitutionally excessive and where compensatory damages were ‘substantial’, a 1:1 ratio might be the outermost limit.¹¹⁹⁷ The Supreme Court specified a number of factors that should contribute to the assessment of the reprehensible conduct, in the case of *BMW of N. Am. Inc. v Gore*,¹¹⁹⁸ The respondent, Gore, brought a suit for damages and punitive damages, having discovered that his BMW had been resprayed. The court at first instance awarded \$4,000 compensation and \$4 million in punitive damages, the latter award being reduced to \$2 million by the Alabama Supreme Court, on the ground that

¹¹⁹⁰ *Cooper Indus.*, 532 U.S. at 432; *Gertz v Robert Welch Inc.* 418 U.S. 323, 350 (1974).

¹¹⁹¹ See *Exxon Shipping Co.*, 128 S. Ct. at 2621 (2008).

¹¹⁹² *Exxon Shipping* (n 1191).

¹¹⁹³ *Phillip Morris USA v Williams*, 549 U.S. 346, 352 (2007).

¹¹⁹⁴ Dan Markel, *How Should Punitive Damages Work?* (n 283) 1301.

¹¹⁹⁵ Dan Markel, *How Should Punitive Damages Work?* (n 283) 1392.

¹¹⁹⁶ *State Farm Mutual Auto Insurance Co. v Campbell*, 538 U.S. 408, 419, (2003).

¹¹⁹⁷ *State Farm* (n 1196)

¹¹⁹⁸ *BMW of N. Am. Inc. v Gore* 517 U.S. 559, 575-77 (1996).

it was grossly excessive.¹¹⁹⁹ The court identified the most important indicium of the reasonableness of a punitive damages award, as the degree of reprehensibility of the defendant's conduct,¹²⁰⁰ reflecting the enormity of his offence. The punitive award may not be wholly disproportionate to the offence and the reviewing court should examine the gravity of the defendant's conduct and the harshness of the award of punitive damages. This principle reflects the accepted view that some wrongs are more blameworthy than others. The second and most commonly cited indicium, is the ratio of punitive damages to the actual harm inflicted on the claimant,¹²⁰¹ with the principle that exemplary damages must bear a reasonable relationship to compensatory damages. The final indicium, was the consideration of sanctions for comparable misconduct, comparing the punitive damages award with the civil or criminal penalties that could be imposed for such conduct, as this gives an indication of excessiveness.¹²⁰² The court also considered the economic arguments put forward in support of a standard that would deter illegal activity causing solely economic harm, by using punitive damages awards to deprive the wrongdoer of the total cost of the harm caused¹²⁰³ and held that the court had failed to apply any economic theory to explain the level of the \$2 million award made.

In the subsequent case of *Copper Industries v Leatherman Tool Group Inc.*¹²⁰⁴ the Supreme Court held that the due process clause prohibited the imposition of 'grossly excessive or arbitrary punishments' and a trial court's application of the *Gore* guideposts, was subject to *de novo* review by the appellate court, at least in a Federal case. Due process was also considered in *Honda Motor Co. v Oberg*,¹²⁰⁵ when the court held that a denial of adequate judicial review of punitive damages violated the Fourteenth Amendment Due Process Clause. In *State Farm*,¹²⁰⁶ the court established a presumption that in practice, few awards exceeding a single digit ratio between

¹¹⁹⁹ *Gore* (n 1198) 13-14.

¹²⁰⁰ *Gore* (n 1198) 43.

¹²⁰¹ *Gore* (n 1198) 52.

¹²⁰² *Gore* (n 1198) 57.

¹²⁰³ See S. Shavell, *Economic Analysis of Accident Law*, 162 (1987); Cooter, *Punitive Damages for Deterrence: When and How Much?* 40, *Ala. L. Rev.* 1143, 1146-1148 (1989); Galligan, *Augmented Awards: The Efficient Evolution of Punitive Damages*, 51 *La. L.Rev.* 3, 17-20, 28-30 (1990).

¹²⁰⁴ *Copper Industries* (n 1190).

¹²⁰⁵ *Honda Motor Co. v Oberg*, 512 U.S. 415, 432 (1994).

¹²⁰⁶ *State Farm* (n 1196) 425.

punitive and compensatory damages, to a significant degree, will satisfy due process and noted that the court had developed the rules to improve fair notice and proportionality for defendants facing these sanctions.¹²⁰⁷ Third parties gained some protection from punitive damages awards, following the Supreme Court decision in *Philip Morris USA v Williams*,¹²⁰⁸ where it was held that reviewing courts should not impose on defendants an amount that includes harms to non-parties to the litigation. The Supreme Court, while laudably attempting to improve the delicate balance between the rights of the claimant and the defendant, they have not imposed the safeguards that are inherent in the criminal courts, as the defendants do not have the usual safeguards established under the Constitution, beyond those set out in the aforesaid cases.¹²⁰⁹ Rustad has, however, in surveying punitive damages across states and in particular, the District of Columbia, pointed out that most states have now introduced a flurry of caps, multipliers and other limits on punitive damages.¹²¹⁰

The application of punitive damages in the US, was recently considered in *Johnson & Johnson v Ingham*.¹²¹¹ The case concerned claims by 20 women who had sustained cancer, as a result of using Johnson's Baby Powder, which contained asbestos. The respondents were Johnson & Johnson (J&J) and Johnson & Johnson Consumer Inc. (J&JC). The jury in the Missouri court awarded each claimant \$25 million in compensatory damages, with punitive damages of \$3.15 billion against J&J (\$143.18 million per claimant) and \$990 million against J&JC (\$45 million per claimant). The Missouri Court of Appeals held that the evidence adduced at this trial showed clear and convincing evidence the defendants acted with evil motive or reckless indifference to their customers' safety, but they substantially reduced the punitive damages awards by more than 60%.¹²¹² The court reviewed the three guideposts set out in *State Farm*¹²¹³ and cited *BMW v Gore*,¹²¹⁴ in which it was stated that 'there is no

¹²⁰⁷ *State Farm* (n 1196) 416-17.

¹²⁰⁸ *Philip Morris* (n 1193).

¹²⁰⁹ Markel, *Retributive Damages* (n 1188) 249-53.

¹²¹⁰ Michael L. Rustad, *The Closing of Punitive Damages' Iron Cage*, 38 Loy. L.A.L. Rev. 1297 app. A (2005).

¹²¹¹ *Johnson & Johnson et al v Gail L. Ingham et al*, 141 S. Ct. 2716 (2021).

¹²¹² Applying the case of *Bristol-Myers Squibb Co. v Superior Court*, 137 S. Ct. 1773 (2017), in respect of personal jurisdiction for a number of plaintiffs.

¹²¹³ *State Farm* (n 1196) 419

¹²¹⁴ *Gore* (n 1198) 582-583.

mathematical bright line that would fit every case.’ In calculating the ratios, the court divided each defendant’s punitive damages award by the compensatory damages for which it was held liable and determined that the ratios 1.8:1 for J&JC and 5.72:1 for J&J were within constitutional limits. The court rejected the appellant’s claim that a punitive damages ratio of 1:1 is the ‘outermost constitutional limit’ when compensatory damages were substantial. Deterrence and reprehensibility justified J&J’s higher ratio, because its reprehensible conduct began years before J&JC was created. The court also noted that higher ratios were justified when, as in this case, ‘the injury is hard to detect or the monetary value of non economic harm might have been difficult to determine.’¹²¹⁵ The court agreed with the parties that the third guidepost was less important because common law torts do not easily compare to statutory penalties. After considering the three guideposts, the court held that the reduced punitive damages awards were not grossly excessive considering the defendants actions of knowingly selling products that contained asbestos to consumers.

In the US, copyright damages, both compensatory and punitive, are awarded by the jury, not the judge, as in the UK. The cases have provided certain factors that juries will take into account in the determination of the award. In *Bryant v Media Rights Prods. Inc.*,¹²¹⁶ the relevant factors were the nature of the infringement; the defendant’s purpose and state of mind; the profits obtained by the infringer; the claimant’s lost revenue due to the infringement; the value of the work that has been infringed; the duration of the infringement; the continuation of the infringement after the infringer had received notice of the infringing conduct; the infringer’s attitude and co-operation in the litigation and the need to deter similar infringing acts. Whilst deterrence is a strong factor in US punitive damages awards, the court is still required to consider the issue of proportionality, as seen in *Johnson & Johnson v Ingham*.¹²¹⁷ The application of proportionality, is illustrated in *Adobe Sys. Inc. v Software Tech*,¹²¹⁸ where the unauthorised activations of the claimant’s computer program, was valued at

¹²¹⁵ *Johnson & Johnson* (n 1211) 100a-105a.

¹²¹⁶ *Bryant v Media Rights Prods. Inc.* 603 F.3d 135, 144 (2d Cir. 2010).

¹²¹⁷ *Johnson & Johnson* (n 1211).

¹²¹⁸ *Adobe* (n 1182).

\$14,842,254.¹²¹⁹ The court held that the number of separate products activated without authorisation, was 19 and it was questionable to assume that without the infringements, the claimant would have made additional sales for each infringement¹²²⁰ and even if all the infringements would have resulted in a sale, that would amount to gross revenue rather than lost profits. Therefore, an award of \$100,000 per infringed work was made, equating to \$1,900,000.¹²²¹ The US courts have made awards of statutory damages for *de minimis* infringement, taking deterrence into account. An award of \$1,000 was considered sufficient ‘to account for the wilful actions of the defendant and the need to deter others’, where the defendant had copied the claimant’s photograph from an online article and removed the credit.¹²²² The single publication of the claimant’s photograph, on a commercial website merited an award of \$5,000 statutory damages, which was considered to be an adequate deterrence.¹²²³

Even though the statutory damages under US 17 §504(c)(1) sets an upper and lower limit, there is a wide margin of discretion for the courts, which leads to inconsistency and disparity in the level of awards.¹²²⁴ An award of \$750.00 per work, was made to the claimant, where the defendant had used BitTorrent to wilfully infringe 13 copyrighted movies,¹²²⁵ with a similar sum being awarded in statutory damages of \$750.00 per work, in respect of four songs that had been publicly performed without a licence or other permission.¹²²⁶ The court noted that an annual fee of \$3,011 would have entitled the defendant the right to play 8.5 million songs, so the minimum statutory award would adequately serve the purposes of deterring putative infringers.¹²²⁷ In *Bryant v Media Productions*¹²²⁸ an award of \$2,400 did not need to be higher to achieve deterrence, which was achieved by the defendant having to pay their

¹²¹⁹ *Adobe* (n 1182) *5.

¹²²⁰ *Adobe* (n 1182) *6.

¹²²¹ *Adobe* (n 1182).

¹²²² *Dermansky v Tel. Media, LLC*, No. 19-CV-1149 (PKC)(PK), 2020 WL 1233943 (E.D.N.Y. Mar. 13 2020).

¹²²³ *Hersch v Sell It Soc. LLC*, No. 20-CV 153-LTS-BCM, 2020 WL 5898816, (S.D.N.Y. Oct. 5 2020).

¹²²⁴ *LHF Prods. Inc. v Gonzales*, No. 2:17-cv-00103-DN, 2020 WL 6323425 (D. Utah, Oct. 28 2020).

¹²²⁵ *Malibu Media, LLC v Doe*, No. 18-cv-14037, 2020 WL 134112 (E.D. Mich. Jan. 13, 2020).

¹²²⁶ *Broadcast Music Inc. v Tommy DoYLES Hyannis, LLC*, Civil Action No. 13-cv-12258-IT, 2015 WL 3649682, *2 (D. Mass. June 10 2015).

¹²²⁷ *Broadcast Music* (n 1226) *4.

¹²²⁸ *Bryant* (n 1216) 144.

own legal fees. The use by the courts of multipliers can achieve considerable variations in awards of statutory damages. Where a photograph had a license value of \$1,000 to \$1,500, a multiplier of ten was appropriate,¹²²⁹ with a multiplier of twice the licence fee, being used for the use of a work, set at \$5,000, equating to \$10,000 in total.¹²³⁰ In contrast, a Second Circuit court held that statutory awards commonly amounted to three and five times the amount of unpaid licence fees.¹²³¹ In the US, the statutory awards are based upon the number of works infringed, not the number of infringements. It was an insufficient deterrent, where a claimant had used an online media distribution system which had tens of millions of potential users, to make motion pictures available to the public. The statutory award was \$3,000 per infringement,¹²³² which arguably failed to achieve compensation or punishment. Compilations or collective works merit one award of statutory damages per set.¹²³³

The US permits higher, or enhanced statutory damages where the infringer was wilful in the infringing conduct. The legislation does not define wilful conduct, but in the case of *Island software & Computer Serv. Inc. v Microsoft Corp.*¹²³⁴ the court held that the claimant had to demonstrate that the defendant was actually aware of the infringing activity or that the defendant's actions were the result of reckless disregard for, or wilful blindness to the copyright holder's rights. Enhanced awards are only made where the case is exceptional, with especially egregious circumstances.¹²³⁵ These circumstances would be expected to be found in guidelines for the assessment of a punitive award and include where the defendant is a counterfeiter or chronic copyright infringer, or if, having received notice of the infringement, takes no action and continues with the infringing conduct, or fails to respond to cease and desist letters.¹²³⁶ The US limit for enhanced damages is \$150,000¹²³⁷ for each work infringed.

¹²²⁹ *Lived In Images* (n 1184) *9, *13.

¹²³⁰ *Crisman v Intuition Salon and Spa, LLC*, No. 8:19-cv-2963-T-24 AAS, 2020 WL 1492770 (M.D. Fla. Mar. 27 2020).

¹²³¹ *Broad Music Inc. v Prana Hosp. Inc.* 158 F. Supp. 3d 184, 199 (S.D.N.Y. 2016).

¹²³² *Twentieth Century Fox Film Corp. v Streeter*, 438 F.Supp. 2d 1065, 1072-73 (D. Ariz. 2006).

¹²³³ *Minden Pictures Inc. v BuzzFeed Inc.* 390 F.Supp. 3d 461, 469 (S.D.N.Y. 2019).

¹²³⁴ *Island Software & Computer Serv. Inc. v Microsoft Corp.* 413 F.3d 257, 263 (2d Cir. 2005).

¹²³⁵ *Krist v Scholastic Inc.* 415 F.Supp. 3d 514, 537 (E.D. Pa. 2019).

¹²³⁶ *McGucken v Newsweek LLC*, 464 F.Supp. 3d 594, 609-10 (S.D.N.Y. 2020).

¹²³⁷ 17 U.S.C. §504(c)(2).

In *Epic Tech v Lara*,¹²³⁸ the court awarded \$150,000 for each of six infringements, taking into account the defendant's conduct, the deterrent effect of the award, the value of the copyright, the non co-operation of the defendants in providing the required evidence and the \$15 million of losses suffered by the claimant. In *Sony BMG Music Ent. v Tenenbaum*¹²³⁹ an award of \$675,000 statutory damages was awarded against the infringer, for the use of file sharing software to distribute 30 copyrighted songs belonging to the claimant. The Court considered the jury award to be 'wholly out of proportion with the government's legitimate interests in compensating the claimants and deterring unlawful file sharing' and it reduced the award to \$2,250 for each infringing work.¹²⁴⁰ The claimants appealed, citing evidence of their losses, with the defendant arguing that statutory damages cannot be awarded unless reasonably related to actual damages. The appeal court disagreed, holding that the availability of statutory damages is not contingent on the demonstration of actual damages. On appeal,¹²⁴¹ the court held that an award of statutory damages of \$22,500 per song, that represented just 15% of the maximum award for wilful violations, comports with due process, emphasising that the defendant had received numerous warnings, having carried on his activities for years, making thousands of songs available illegally, had denied responsibility during discovery and considered the deterrent effect of statutory damages awards. A statutory damages award was described as 'monstrous and shocking'¹²⁴² when the defendant infringed 24 copyrighted works by illegally downloading and distributing via online peer-to-peer file sharing. The initial award was \$222,000, but following a new trial, the jury awarded \$1,920,000, which was reduced to \$54,000. The third trial saw the jury increase the award to \$1,500,000, but the court held that the maximum amount permitted by the Due Process Clause of the Fifth Amendment was \$54,000. The Eighth Circuit Court of Appeals vacated that judgment and remanded the case, with directions to enter a judgment for \$222,000,¹²⁴³ a sum requested by the claimant.

¹²³⁸ *Epic Tech LLC v Lara*, No. 4:15-cv-01220, 2017 WL 59003331 (S.D. Tex. Nov. 30 2017).

¹²³⁹ *Sony v Tenenbaum* (n 1180) 72.

¹²⁴⁰ *Sony v Tenenbaum* (n 1180) 121.

¹²⁴¹ *Sony v Tenenbaum* (n 1180).

¹²⁴² *Capitol Records v Thomas-Rasset* (n 276).

¹²⁴³ *Capitol Records v Thomas-Rasset* (n 276).

Vasiu and Vasiu have analysed the awarding of damages in copyright cases, concluding that there are a number of characteristics that are not desirable in litigation; over claiming; over deterrence; convoluted procedures; ambiguity; lack of rules relating to calculation and inconsistency. The application of statutory damages exposed various, often contradicting approaches to the use of multipliers and award calculations. In a number of cases in the US, the enhanced awards were disproportionately high, even 'monstrous', which highlighted the need for statutory provisions that limit or adjust as a tool, to avoid both excessive awards and over complicated histories. The authors recommend the application of three factors: (i) the magnitude of the infringement (ii) the method of infringement and (iii) the infringer's misconduct. Each of these factors would have a score, with the total number of that score multiplied by the minimum statutory award to provide an actual award in the case.¹²⁴⁴ They conclude that punitive damages can play an important role in deterring misconduct and to fill in the gaps, providing the claimants with proper compensation. They argue for a mathematical relationship between the compensatory and punitive damages, or a multiplier of the compensatory aspect of the award, best serving the factors of magnitude, method and conduct. Such a reform is still far from ideal, as multipliers can produce varying awards, although it is difficult to disagree with the author's identification of the characteristics that are not desirable in litigation.

The issue of excessiveness in awards of punitive damages, was considered in the case of *Exxon Shipping Co. v Baker*,¹²⁴⁵ a case which addressed punitive damages as a common law remedy under federal maritime law. An award of punitive damages was made against Exxon, in the sum of \$5 billion, which was reduced to \$2.5 billion.¹²⁴⁶ The Supreme Court was asked to consider, amongst other matters, whether the damages awarded were excessive. The court considered that they were and focused on the issue of the *unpredictability* of punitive damages.¹²⁴⁷ The primary aim of the court was to find a solution to the unpredictability of awards. The court found that a punitive damages award must be 'reasonably predictable in its severity.'¹²⁴⁸ It considered three

¹²⁴⁴ Vasiu and Vasiu (n 74) 129-130.

¹²⁴⁵ *Exxon Shipping* (n 1191).

¹²⁴⁶ *Exxon Shipping* (n 1191) §471.

¹²⁴⁷ *Exxon Shipping* (n 1191) §497-499.

¹²⁴⁸ *Exxon Shipping* (n 1191) §502.

approaches towards a standard in assessing maritime punitive damages and rejected the principle of verbal formulations or judicial review, or even the option of quantified limits or the setting of a hard dollar cap on punitive damages awards.¹²⁴⁹ The court considered the best approach would be to use a ratio of the punitive damages to the compensatory damages.¹²⁵⁰ It applied the 1:1 ratio against the calculation of the compensation award of \$507.5 million, which was the maximum punitive damages award in maritime cases. The court considered that in the circumstances of the case, the ratio would address the 'stark unpredictability of punitive damages awards.'¹²⁵¹ However, this approach does not permit the use of judicial discretion where the circumstances of any given case require it and that is a weakness in the US system.

6.8 Conclusion

Australia, in common with the UK provides for a *sui generis* approach to the application of punitive damages and the US permits an award of statutory damages as an alternative to actual damages and profits. Australia provides guidelines in the Copyright Act 1968, which provide the court with factors to consider in making the award, whereas the US 17§504 Copyright Code provides an financial range of \$750.00 to \$30,000 for statutory damages, and \$200.00 to \$150,000 for an enhanced award where the infringer has the requisite wilfulness. The UK provides for an award of additional damages under section 97(2) of the CDPA 1988, taking into account, the factors of flagrancy and benefit to the infringer. All three jurisdictions now appear to accept that copyright damages need to have a punitive element to successfully deter infringement and provide for punishment and deterrence aspects of awards of damages for IP infringement, whether expressed as additional damages or statutory damages. What all three jurisdictions lack, are coherent guidelines for both their application and quantification. These factors may have implications for human rights issues and the following chapter considers human rights in the context of the right to freedom of expression and the potential chilling effect of the application of punitive damages on that right.

¹²⁴⁹ *Exxon Shipping* (n 1191) §473.

¹²⁵⁰ *Exxon Shipping* (n 1191) §473-474.

¹²⁵¹ *Exxon Shipping* (n 1191) §472.

Chapter seven

Human Rights considerations in punitive damages awards

7.1 Introduction

Human rights (HR) and IP, two bodies of law that were once strangers, are now becoming increasingly intimate bedfellows. For two decades the two subjects developed virtually in isolation from each other, but in the last few years international standard setting activities have begun to map previously uncharted intersections between IP law on the one hand and human rights law on the other.¹²⁵² Striking the appropriate balance between recognising and rewarding human creativity and innovation and ensuring public access to these fruits of the human mind, poses the ‘central challenge’ when bringing together the two regimes of human rights and IP.¹²⁵³ This is particularly relevant to the concept of punitive damages, which can have a chilling effect on freedom of speech under Article 10 of the European Convention of Human Rights (ECHR), as well as in the context of the right to a fair trial under Article Six. This chapter will consider the impact of punitive damages on human rights in the particular context of freedom of expression.

7.2 The interface between human rights and IP

The Universal declaration of Human rights (UDHR) was adopted in Paris on 10 December 1948.¹²⁵⁴ Article 27(1) provides that *‘Everyone has the right to freely participate in the cultural life of the community, to enjoy the arts and to share in scientific advancement and its benefits.’* Article 27(2) goes on to provide that *‘Everyone has the right to the protection of the moral and material interests resulting from any*

¹²⁵² Friederick Hayek, *‘Constitution of Liberty,’* (First published Chicago 1960, 1978) 45.

¹²⁵³ Laurence R Helfer and Graeme W Austin, *Human Rights and Intellectual Property: Mapping the Global Interface Between Human Rights and Intellectual Property*, (Cambridge University Press 2011) 507.

¹²⁵⁴ The Universal Declaration of Human Rights (adopted 10 December 1948) UNGA Res 217 A(III) (UDHR).

scientific, literary or artistic production of which he is the author.' It is Article 27 that identifies the right to moral and economic rights by an IP right holder, by virtue of Article 27(2), while the public interest is protected by Article 27(1). This creates a conflict which requires a delicate balancing act between two very important rights. The UDHR not only protects intangible rights, but expressly provides that individuals have the right to own property and not to be arbitrarily deprived of that property.¹²⁵⁵ No distinction is drawn between real and intangible property, or between real property and chattels. Even as early as 1948, it was recognised that there was also a right to the freedom of opinion and expression and the right to seek, receive and impart information through any media and regardless of frontiers.¹²⁵⁶ This was a time before the internet, launched on 30 April 1993, enabled the free movement of goods and services across international borders. The UDHR provides a solid foundation for any resistance to a person's use of the internet, even though such restrictions would not have been envisaged at the time of drafting. The right has also formed the basis for objections to any attempt to disconnect a person's use of the internet, as attempted unsuccessfully in the French HADOPI system.¹²⁵⁷ The UDHR made provision for effective remedies where a person's fundamental rights have been violated¹²⁵⁸ and this extends to the right to have a fair and public hearing by an independent and impartial tribunal, where there needs to be a determination of those rights and obligations and of any criminal charge.¹²⁵⁹ There is also a presumption of innocence until guilt is proven, with the benefit of all the guarantees necessary for the conduct of the defence.¹²⁶⁰ These presumptions are applicable to the imposition of punitive damages, in order to ensure fairness and proportionality.

The protection of IP was specifically incorporated into the International Covenant on Economic, Social and Cultural Rights 1966 (ICESCR),¹²⁶¹ which, along with the

¹²⁵⁵ UDHR, art. 17(1) and 17(2). Art. 17(1) states that everyone has the right to own property alone as well as in association with others, while art 17(2) states that no one shall be deprived of his property.

¹²⁵⁶ UDHR, art. 19.

¹²⁵⁷ France's HADOPI Law, *Haute Autorite Pour La Diffusion Des Oeuvres et La Protection des Droits D'auteur Sur Internet*, (adopted on 12 May 2009, French National Assembly, on 13 May 2009, French Senate).

¹²⁵⁸ UDHR, art. 8.

¹²⁵⁹ UDHR, art. 10.

¹²⁶⁰ UDHR, art. 11(1).

¹²⁶¹ The International Covenant on Economic, Social and Cultural Rights (1966) (ICESCR) (entered into force on 3 January 1971).

International Covenant of Civil and Political rights 1966 (ICCPR)¹²⁶² and the UDHR, is part of the International Bill of Human Rights.¹²⁶³ Article 15(1) of the ICESCR *recognises the right of everyone: to take part in cultural life; to enjoy the benefits of scientific progress and its applications and to benefit from the production of the moral and material interests resulting from any scientific, literary or artistic production, of which he is the author. Article 15(2) places an obligation upon the contracting parties to take steps necessary for the conservation, the development and the diffusion of science and culture and to respect the freedom indispensable for scientific research and creative activity.* The ICESCR, like the UDHR, recognises both the public and private interests inherent in a balanced IP regime and the benefits which are derived from international contacts and cooperation within scientific and cultural fields.¹²⁶⁴ The ICESCR does not elaborate on the definition of *indispensable freedom required for scientific or creative activity*, but it is suggestive of a regime which allows full freedom of expression and the opportunity to take on the baton of established work and develop it, without an unduly onerous period of IP protection. The ICCPR, Article 14 provides a comprehensive statement as to the elements of a fair trial within criminal proceedings¹²⁶⁵ and this exhaustive list of elements exceeds those in Article 6 of the ECHR.¹²⁶⁶

Neither the Paris Convention for the Protection of Industrial Property,¹²⁶⁷ nor the Berne Convention for the Protection of Literary and Artistic Works¹²⁶⁸ refer to human rights directly, but the Preamble to the TRIPS Agreement recognises IP rights as private rights, which is suggestive of stronger connotations of private ownership rather than fundamental rights, recognising perhaps, that these rights are not state rights but held by the individual author or creator. It is also likely that, as a WTO instrument, the concept of trade and ownership was to the forefront of the minds of the TRIPS negotiators.

¹²⁶² International Covenant on Civil and Political Rights (adopted 16 December 1966) entered into force 23 March 1976) 999 UNTS 171 (ICCPR).

¹²⁶³ International Bill of Human Rights, UN General Assembly Resolution 217 (III).

¹²⁶⁴ ICESCR art. 15(4).

¹²⁶⁵ ICCPR, see art. 14.1, which sets out the basis for equality before the courts.

¹²⁶⁶ The European Convention on Human Rights 1950 (ECHR) signed in Rome 1950 (in force 3 September 1953 (present text in force on 1 June 2010).

¹²⁶⁷ Paris Convention.

¹²⁶⁸ Berne Convention.

The ECHR and the Charter of Fundamental Rights of the European Union (EU Charter)¹²⁶⁹ provide a highly developed framework of fundamental rights protection, with the European court of Human Rights (ECtHR) having developed an extensive jurisprudence on the meaning and application of the rights protected under the ECHR.¹²⁷⁰ The level of the protection of rights has also evolved to protect contemporary norms and it has come to be understood that contracting states are not only obliged to refrain from violating such rights, but in certain circumstances, to take positive steps to secure the enjoyment of such rights.¹²⁷¹ The EU Charter came into force on 1 December 2009 and unlike the ECHR, it expressly provides that intellectual property shall be protected.¹²⁷² It is the only international human rights instrument to provide direct protection, although the ECtHR has held that IP rights fall within the scope of Article 1 of Protocol 1 of the ECHR.¹²⁷³ The UK is not a party to the EU Charter, having left the EU. In 1998, the UK incorporated the ECHR into national legislation, with the Human Rights Act, which came into force on 2 October 2000, allowing national courts to deal with breaches of fundamental rights without the need to go to the ECtHR for a remedy. In 2014, the Conservative Party published a policy document, *Protecting Human Rights in the UK*, which set out its proposal to repeal the Human Rights Act 1998 and replace it with a new Bill of Rights and responsibilities. The 2015 Conservative Manifesto followed up on this, promising to ‘scrap the Human Rights Act and introduce a British Bill of Rights.’¹²⁷⁴ The current Conservative Government continued the momentum and on 22 June 2022, it published a Bill of Rights Bill, which would repeal the Human Rights Act 1998 and replace it with a new framework to implement the ECHR.¹²⁷⁵ The Bill was however, withdrawn on 27 June 2023.¹²⁷⁶

¹²⁶⁹ The Charter of Fundamental Rights of the European Union (The EU Charter) (2 October 2000) (ratified on 7 December 2000) Nice, France, 2012/C/326/02. The Charter became legally binding on EU Member States when the Treaty of Lisbon entered into force in December 2009. The UK is not a party to the EU Charter.

¹²⁷⁰ See generally, D J Harris, M O’Boyle, E P Bates and C M Buckley, *Law of the European Convention of Human Rights*, (2nd ed. OUP 2009).

¹²⁷¹ Harris and others (n 1270) 18-21.

¹²⁷² The EU Charter states in art 17(2) that intellectual property shall be protected, whilst the fundamental right to property is contained in art 17(1).

¹²⁷³ *Anheuser-Busch Inc v Portugal* [GC] no. 73049/01 ECHR 2007-1.

¹²⁷⁴ The Conservative Party, Strong Leadership, A clear economic plan, a brighter, more secure future: The Conservative Party Manifesto 2015, 60: <http://www.conservatives.com/manifesto>.

¹²⁷⁵ See Parliamentary Bills; bills.parliament.uk.

¹²⁷⁶ See bills.parliament.uk (Updated at 28 June 2023).

The close connection between IP rights and the freedom of expression has been noted by the Inter-American court of Human Rights (ACtHR), which stated ‘*The contents of intellectual property rights which protect the use, authorship and integrity of the works and whose exercise includes the right to disseminate the creation, are closely related to the two dimensions of freedom of thought and freedom of expression.*’¹²⁷⁷ The right to freedom of expression is central to the ethos of the internet and it is in this context that the issue of IP enforcement, especially criminal enforcement has found a platform for debate. The ECtHR noted in *Castells v Spain*¹²⁷⁸ that ‘*Freedom of expression enshrined in paragraph 1 of Article 10 (Article 10.1) constitutes one of the essential foundations of a democratic society and one of the basic conditions for its progress.*’ It is essential that a successful IP enforcement regime includes the integration of HR norms. The seemingly disparate interests of trade and IP protection and HR norms, ultimately converged through the adoption of the Sub-Commission on Human Rights Resolution 2000/7, *Intellectual Property and Human Rights*, by the United Nations Sub-Commission of Human Rights (Resolution 2000/7).¹²⁷⁹ The Resolution called on UN member states, intergovernmental bodies and various UN entities to reaffirm their commitment towards the development of international IP regimes and further study the interaction between IP protection and human rights.¹²⁸⁰

Thomas Cottier argues that restrictions of HR in particular, freedom of information and freedom of expression, by means of IP and copyright, are duly possible up to the point that the essence of human rights is affected. Sufficient precise legal foundations of IP rights, the public interest in protecting them and encouraging innovation and investment can be readily met. He states that the critical test, in his view, is necessity and proportionality. The latter is able to offer appropriate guidance in reshaping property rights. Proportionality essentially consists of three components: the measure is necessary; the measure is suitable and able to achieve the goal and the means of the

¹²⁷⁷ *Palemara Iribaine v Chile (Merits, Reparations and Costs)* 14 EHRR 445, IHRL 2936 (ECHR 1992) 107.

¹²⁷⁸ *Castells v Spain*, App no. 11798/85 (1992), A/236 (1992) 14 EHRR, 445, IHRL 2936 (ECHR 1992) para 42.

¹²⁷⁹ The Sub-Commission on Human Rights, Resolution 2000/7, *Intellectual Property Rights and Human Rights*, ESCOR, Commission on Human Rights, Sub-Commission on the Promotion and Protection of Human Rights, 52nd Sess, 25th mtg, U.N. Doc. E/CN.4/Sub.2/Res/2000/7 (2000), (Resolution 2000/7).

¹²⁸⁰ The Sub-Commission on Human Rights (n 1279) para 4-14.

measure do not exceed what is necessary to achieve the goal. The relationship of ends and means is perhaps the most important factor in guiding the shaping of property rights.¹²⁸¹ These are factors which are essential when establishing or reforming an IP regime. Proportionality may be evidenced by a system of remedies which does not need to rely on criminal penalties when the civil law can provide for an adequate award of damages, to include punitive damages where appropriate.

In considering necessity and proportionality in an IP enforcement regime, the starting point is the TRIPS Agreement, which could be regarded as a one dimensional instrument that focuses on the interests of the right holder, as the ability to enforce IP rights at an international level, as contained in Part III of the Agreement in Articles 41-61, is a large part of that Agreement. Resolution 2000/7¹²⁸² was the first UN Document going through the impact of IP as a very diverse human right, mainly economic and social and it centered on the TRIPS Agreement as a focus of its concerns about human rights and trade agreements. It declared '*That since the implementation of the TRIPS Agreement does not accurately reflect the fundamental nature and indivisibility of all human rights, there are apparent conflicts between the intellectual property rights contained in the TRIPS Agreement, on the one hand and international human rights law on the other.*'¹²⁸³ The imbalance in the way that international obligations are realised under TRIPS and the human rights treaties, was a significant motivating factor in the Sub-Commission's decision to adopt Resolution 2000/7.¹²⁸⁴

Increasing globalisation and international trade treaties have proliferated since the TRIPS Agreement was signed in 1994 and the WIPO Advisory Committee on Enforcement, held nine sessions between 2002 and 2013.¹²⁸⁵ However, Resolution 2000/7 raised the profile of the relationship between international IP protection, globalisation and human rights and a response from the High Commissioner for Human

¹²⁸¹ Thomas Cottier, *Copyright and the Human Right to Property: A European and International Case law Approach*, in *Intellectual Property and the Judiciary*, Christophe Geiger, Craig Allen Nard and Xavier Seuba, (ed. Edward Elgar 2018) 116 139, 140.

¹²⁸² The Sub-Commission on Human Rights (n 1279).

¹²⁸³ The Sub-Commission on Human Rights (n 1279) Preface and para 2.

¹²⁸⁴ David Weissbrodt and Kell Schoff, 'Human Rights Approach to Intellectual Property Protection: The Genesis and Application of Sub-Committee Resolution 2000/7, (2013) 1 Minn. Intell. Prop. Rtev. P 15.

¹²⁸⁵ WIPO Advisory Committee on Enforcement, at <http://www.wipo.int/meeting/eu/topic.jsp?group.id=142>.

Rights (HCHR)¹²⁸⁶ undertook a two stage analysis, assessing the degree to which TRIPS was compatible with a human rights approach to IP protection and to the extent that it did not comply with human rights standards. The report made recommendations for implementing flexibility within the TRIPS Agreement, that would foster a more human rights approach to international IP protection.¹²⁸⁷ The HCHR was of the opinion that TRIPS was not fully compatible with human rights objectives and the recommendations were made with a view to the shortcomings being addressed.¹²⁸⁸ The recommendations included amending Article 7 of the Agreement to include specific reference to human rights,¹²⁸⁹ monitoring TRIPS implementation through national legislation to ensure that it meets the human rights standards detailed in the ICESCR¹²⁹⁰ and the Sub-Committee should continue to examine the interaction between IP rights and other rights.¹²⁹¹ The WTO and WIPO, along with the European Commission¹²⁹² did not agree with the Sub-Commission's conclusions that that TRIPS was in conflict with human rights objectives. In particular, the European Commission considered that Article 7 of TRIPS¹²⁹³ struck an appropriate balance of interests.¹²⁹⁴ Notwithstanding the conflicting responses to Resolution 2000/7, it has encouraged a series of investigations into the human rights implications of international IP protection and trade liberalisation and by adopting the Resolution, the Sub-Commission played a role in the broader effort to develop a human rights approach to IP protection, world trade and globalisation.¹²⁹⁵

¹²⁸⁶ *The Impact of the Agreement of Trade Related Aspects of Intellectual Property Rights on Human Rights: Report of the High Commissioner (ESCOR)*, Commission on Human Rights Sub-Committee on the Promotion and Protection of Human Rights, 52nd Sess. Provisional Agenda, item 4, para 15, U.N. Doc.E/CN/4/Sub2/2001/13(2001). (High Commissioner TRIPS Report, 2001).

¹²⁸⁷ High Commissioner TRIPS Report (n 1286) paras 60-69.

¹²⁸⁸ High Commissioner TRIPS Report (n 1286) paras 22-70.

¹²⁸⁹ High Commissioner TRIPS Report (n 1286) para 68.

¹²⁹⁰ High Commissioner TRIPS Report (n 1286) para 61.

¹²⁹¹ High Commissioner TRIPS Report (n 1286) para 59-70.

¹²⁹² Submission to the United Nations Secretary General for the Services of the European Commission With Regard to Resolution 2000/7 and the Request for a Report on Intellectual Property Rights and Human Rights, para 7 (31 July 2001) (Submission to UN, Resolution 2000/7)

¹²⁹³ TRIPS art. 7 states that the 'protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare and to the balance of rights and obligations.'

¹²⁹⁴ Submission to the UN, Resolution 2000/7 para 7.

¹²⁹⁵ Weissbrodt and Schoff, Human Rights Approach (n 1284) para 46.

7.3 Freedom of Expression

Article 10(1) of the ECHR provides that *‘Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers.’* Article 10(2) provides that *‘the exercise of these freedoms may be subject to such formalities, conditions, restrictions or penalties as are prescribed by law and are necessary in a democratic society, for the protection of the reputation or rights of others.’* The ECtHR has interpreted the right to freedom of expression under Article 10, in the context of a case involving copyright infringement. In the *Pirate Bay* case,¹²⁹⁶ the applicants operated a website designed to enable digital copyrighted material, such as computer games, movies and music, to be shared by its users. The ECtHR had to rule upon an application made pursuant to Article 10 of the ECHR, following the applicant’s convictions for copyright infringement. The applicants asserted that their convictions were an interference with their right to freedom of expression and the ECtHR held that their activities were protected as they had put in place the means for others to impart and receive information within the meaning of Article 10, which applied not only to the context of the information, but also to the means of transmission and reception. The ECtHR had then to balance the interests of the applicants in the facilitation and sharing of information, against the interest in protecting the rights of the copyright holder. The court emphasised that the protection afforded to IP under Article 1 of the ECHR, included ‘positive measures of protection’ and the responding Member State is required to balance the rights of the applicant with the need to protect the copyright holder against infringement. There is a ‘wide margin of appreciation’ enjoyed by the States in the balancing exercise and the ECtHR determined that the Swedish court had not acted in a way that was disproportionate, so no violation of Article 10 had taken place.¹²⁹⁷ The ECtHR also had to consider the magnitude of the sentences imposed upon the applicants and the court held that the nature and severity of the penalties are factors to be taken into account, when assessing the proportionality of the

¹²⁹⁶ *Neij and Sunde Komisoppi v Sweden (The Pirate Bay)* App no. 40397/12 (ECtHR 2013).

¹²⁹⁷ *The Pirate Bay* (n 1296) paras 9, 11.

interference with the freedom of expression guaranteed by Article 10 of the ECHR.¹²⁹⁸ The applicants had been sentenced to a 12 month custodial sentence and ordered to pay a fine equating to £1.3 million. On appeal, the applicants had their sentences reduced to four, eight and 10 months respectively, but the fines were increased to £4.1 million. It is arguable that in exercising a 'wide margin of appreciation' and proportionality, the overriding factor is that copyright infringement in that case, a criminal act, cannot be subjugated to the right of freedom of expression or criminal sanctions for IP would be rendered ineffective. Conversely, the justification for the introduction of more severe penalties and remedies is to counteract the proliferation of copyright piracy and trade mark counterfeiting as a dissuasive measure and this may lead the courts to apply severe remedies as a discouragement.¹²⁹⁹ Punitive damages could be considered to be a severe remedy, especially if they lack proportionality.

The 'wide margin of appreciation' enjoyed by national courts was again considered in the case of *Ashby Donald & Others v France*,¹³⁰⁰ in which three fashion photographers made a complaint to the ECtHR following a decision by the French national courts, to make an order that they pay fines and damages amounting to €225,000, for copyright infringement, resulting from taking photographs of designer clothes at fashion shows and publishing them online without the consent of the designers, the copyright owners. The photographers alleged that the fines and damages awarded against them, violated their right to freedom of expression under Article 10 of the ECHR. The ECtHR determined that the publication of the photographs was a form of *commercial speech* and that the financial penalties awarded for the infringement interfered with their freedom of expression. The court held that it could be justified if it met with the requirements set out in Article 10, that such interference was lawful, necessary, in that it protected the competing rights of the right holder and that it was proportionate. In this case, there had been no violation of Article 10, because of the wide margin of appreciation that is granted to national courts, balancing the competing rights under the ECHR, in this case, the right to freedom of expression and the right to property.¹³⁰¹

¹²⁹⁸ *The Pirate Bay* (n 1296) para 11.

¹²⁹⁹ Jonathan Griffiths, *Criminal Liability for Intellectual Property Infringement in Europe: The Role of Fundamental Rights*, in *Research Handbook On Human Rights and Intellectual Property* (ed. Edward Elgar 2015) 205.

¹³⁰⁰ *Ashby Donald & Others v France*, App no. 36769/08 (ECtHR 2013)

¹³⁰¹ *Ashby Donald* (n 1300) paras 34, 38.

Henning Grosse Ruse-Khan describes this as a deferential approach to national law and considers that the approach chosen by the courts oscillates between deference to domestic normative decisions and keeping pace of evolution in human rights law.¹³⁰²

The principle of proportionality is an independent means of interpretation developed alongside other canons of construction. Proportionality is often considered in the conduct of limitation of rights, but the principle of proportionality is applied far beyond the confines of limitation clauses and proportionality is not merely a test of the legitimacy of interference in human rights. As the cases illustrate, the ECtHR has, over the last 50 years, developed the principle of proportionality into an indispensable tool to balance conflicting interests and to adjudicate disputes placed before it.

Proportionality cannot be viewed as a simple formula that can be readily applied to solve complex political and legal questions. Proportionality is undeniably a complex matter that needs to be thoroughly analysed and comprehended to properly understand the role of human rights and how it affects IP.¹³⁰³ Hart has noted that the open texture of law means that there are, indeed, areas of conduct where much must be left to be developed by courts or officials, striking a balance in light of the circumstances between competing interests, which vary in weight from case to case.¹³⁰⁴ The awarding of punitive damages is one such area, which clearly requires such a balance.

7.4 *The Chilling Effect*

One of the issues with punitive damages, is that they may have a chilling effect on free speech. When a government passes a law, it often regulates conduct. People and organisations adjust their behaviour to fit the legal rule. However, regulations are sometimes unclear, uncertain, or over broad, which can lead people to refrain from engaging in permissible actions because they are unsure whether they will be legally

¹³⁰² Henning Grosse Ruse-Khan, *Overlaps and Conflict Norms in Human Rights Law: Approach of European Courts to Address Intersections With Intellectual Property Rights*, in *Research Handbook on Human Rights and Intellectual Property*, (ed. Edward Elgar 2015) 70, 87.

¹³⁰³ Jonas Christofferson, *Human Rights and Balance: The Principle of Proportionality*, in *Research Handbook on Human Rights and Intellectual Property* (ed. Edward Elgar 2015) 19.

¹³⁰⁴ H.L.A. Hart, *The Concept of Law* (Oxford Clarendon 1961) 128-129 and 132.

sanctioned. The effect of a law on activity outside the scope of its intended target, is known as the 'chilling effect.'¹³⁰⁵ While chilling may happen in any number of contexts, it has been incorporated into free speech doctrine as a mechanism for policing statutes that are not aimed at regulating free speech protected by the US First Amendment, but have the incidental effect of doing so.¹³⁰⁶ A regulation may only seek to censor, limit or restrict certain types of speech, but because citizens fear sanctions, the same regulation ends up censoring, limiting or restricting other potentially valuable types of speech.¹³⁰⁷

The original concept of 'chilling' dates back to 1952 with the Supreme Court case of *Wieman v Updegraff*,¹³⁰⁸ in which the court invalidated legislation requiring state employees to pledge a 'loyalty oath' indicated that they were not, nor had been for five years, a member of any organisation that the Attorney General of the United States deemed 'subversive', on the basis that it violated the Fourteenth Amendment. In 1963, the chilling effect found its way into speech regulation jurisprudence in *Gibson v Florida*,¹³⁰⁹ in which it was stated 'While all legitimate organisations are the beneficiaries of these protections, they are all the more essential here, where the challenged privacy is that of persons espousing beliefs already unpopular with their neighbours and the deterrent and 'chilling;' effect on the free exercise of constitutionally enshrined rights of free speech, expression and association is consequently the more immediate and substantial.'

There are two important parts to the traditional definition of the chilling effect, deterrence and government regulation.¹³¹⁰ The chilling effect principle rests on the

¹³⁰⁵ Leslie Kendrick, *Speech, Intent and the Chilling Effect*, (2013) 54 WM & Mary L. Rev. 1633, 1649.

¹³⁰⁶ Kendrick (n 1305) 1649-50.

¹³⁰⁷ See Frederick Schauer, *Fear, Risk and the First Amendment: Unravelling the 'Chilling Effect'*, (1978) 58 B.U.L. Rev. 685. See also, Daniel J. Solove, *The First Amendment as Criminal Procedure*, (2007) 82 N.Y.U.L. Rev. 112, 142-43, discussing the deterrent effects of speech regulation in the context of criminal law; Margot E. Kominski and Shane Witnov, *The Conforming Effect: First Amendment Implications of Surveillance, beyond Chilling Speech*, (2015) 49 U. Rich. L. Rev. 465, 483-93, Henry P. Monaghan, *Constitutional Fact Review*, (1985) 85 COLUM. L. REV. 229, 268, discussing the familiar 'chilling effect' rhetoric asserts that First Amendment values are very fragile and especially vulnerable to an 'intolerable' level of deterrence and the danger of impermissible deterrence is real.'

¹³⁰⁸ *Wieman v Updegraff* (1952) 344 U.S. 183, 195.

¹³⁰⁹ *Gibson v Fla. Legis. Investigation. Comm.* (1963) 372 U.S. 539, 556-57.

¹³¹⁰ Suneal Bedi, *The Myth of the Chilling Effect*, *Harvard Journal of law & Technology*, (2021) Vol 35, no. 1, 267, at 273.

assumption that individuals are frequently deterred in the face of government regulations¹³¹¹ as the very essence of a chilling effect is an act of deterrence. But why are people deterred from engaging in an activity by a law that makes it illegal to engage in a different activity? Scholars have recognised that individuals are fearful of criminal and civil sanctions.¹³¹² Ideally, of course, individuals would know exactly what would create a sanction and would be able to easily adapt their speech to the constraints of a regulation.¹³¹³ However, this is often not the case with speech regulations. The deterrence aspect of the chilling effect is particularly highlighted when a regulation's application is uncertain.¹³¹⁴ The uncertainty of whether one's speech is covered under a regulation makes a speaker more likely to overcorrect with the intent to confidently speak in a legal manner.¹³¹⁵ Schauer explains that 'In an ideal world, there would be neither error nor uncertainty in the legal process. As a result of the foregoing, any individual could instantly ascertain whether his contemplated conduct would be a violation of a given enactment.'¹³¹⁶ Uncertainty stems from ambiguous rules or erroneous applications. Either of these may make a speaker fear that he will be held liable for speech that should properly be protected. The closer his speech is to the line between protected and unprotected, the more pronounced this uncertainty will be.¹³¹⁷ A balanced regime of IP protection, especially one which seeks to deter and impose punitive penalties, should therefore have clarity in its application in order to avoid misunderstanding and uncertainty.

Bedi notes, in the context of speech making, that although seemingly obvious, deterrence is in itself a complicated and messy topic. While on a first read, deterrence means simply not doing something, this may have various meanings in the speech context, such as not engaging in any kind of related speech whatsoever.¹³¹⁸ However, this is a limited view of what deterrence is and viewing the concept of deterrence more broadly would lend one to conclude that an individual may still engage in speech, but due to fear of repercussions may change how exactly they speak, what words they

¹³¹¹ Schauer (n 1307) 694.

¹³¹² Schauer (n 1307) 694, quoted in Bedi (n 1310) 273.

¹³¹³ Schauer (n 1307).

¹³¹⁴ Bedi, (n 1310) 273.

¹³¹⁵ Bedi, (n 1310) 273.

¹³¹⁶ Schauer (n 1307) 694.

¹³¹⁷ Kendrick, (n 1305) 1652-55.

¹³¹⁸ Bedi, (n 1310) 274.

use and what they communicate. This is still in the context of overcorrection given the existence of the regulation.¹³¹⁹ In the case of *New York Times v Sullivan*¹³²⁰ the Supreme court overturned a finding of defamation against the NY Times for publishing an advertisement of supporters of Martin Luther King, criticising how the Alabama police treated civil rights protesters.¹³²¹ The court initially found that there were some inaccuracies in the advertisement,¹³²² but the Supreme Court held that the Alabama defamation law was too restrictive and so amounted to a violation of the First Amendment, which protects the freedom of speech, press, religion and the right to petition the government for the redress of grievances.¹³²³ In making the decision, the Supreme Court held that false statements are inevitable in free debate and they must be protected if the freedoms of expression are to have the 'breathing space' that they need to survive.¹³²⁴ The court held that a *per se* defamation law would deter individuals from engaging in otherwise protected speech.¹³²⁵

The chilling effect has impacted on private speech restriction, known as private chill.¹³²⁶ This is best evidenced in the context of social media, where platforms such as Facebook and Twitter have been implicated in the chilling aspect or curbing freedom of expression, by restricting posts and activities on their websites that could be described as fake news, political advertisements and hate speech.¹³²⁷ With third party intermediaries such as internet service providers (ISP's) acting as censors of free speech, Donald Trump's administration stated that¹³²⁸ 'In a country that has long cherished the freedom of expression, we cannot allow a limited number of online platforms to hand pick the speech that Americans may access and convey on the internet. This practice is fundamentally un-American and anti-democratic. When large, powerful social media companies censor opinions with which they disagree, they

¹³¹⁹ Bedi (n 1310).

¹³²⁰ *New York Times v Sullivan*, 376 U.S. 254 (1964).

¹³²¹ *New York Times v Sullivan* (n 1320) 257-58.

¹³²² *New York Times v Sullivan* (n 1320) 262-64.

¹³²³ *New York Times v Sullivan* (n 1320) 264.

¹³²⁴ *New York Times v Sullivan* (n 1320) 272, quoting *NAACP v Button*, 371 U.S. 415, 433 (1963).

¹³²⁵ *New York Times v Sullivan* (n 1320) 300-01.

¹³²⁶ Monica Youn, *The Chilling Effect and the Problem of Private Action*, 66 Vand. L. Rev. 1473, (2013), at 1496.

¹³²⁷ Joel Timmer, *Fighting Falsity: Fake News, Facebook and First Amendment*, (2017) 35 CARDOZO ARTS & ENT. L.J. 669, 669-703; Jennifer M. Kinsley, (2016) *Chill*, 48 LOY. U. CHI L.J.

¹³²⁸ Preventing Online Censorship, 85 Fed. Reg. 34,069 §1 (28 May 2020).

exercise a dangerous power.’ Thereafter, Facebook and Twitter suspended the account of President Trump, with Twitter citing that many of his posts contained lies and incited violence.¹³²⁹ The debate about the censorship of free speech will continue. Social media sites in the U.S. have the benefit of protection from liability associated with any third party content that they publish,¹³³⁰ while it can be argued that in theory, counter speech is good for the market place of ideas,¹³³¹ with media censorship possibly creating a market failure in the market place of ideas. Bedi has considered the existing empirical work, in the form of surveys attempting to measure the use of defamation and libel laws to chill speech,¹³³² noting that further empirical work is required.¹³³³ However, the study showed that speech does get chilled, but not necessarily in the way scholars, courts and policy makers may expect. Rather than deterring the speech that is intended, the respondents could still communicate exactly what they wanted to, but instead to express it in a more circuitous way. The issue of whether the extent or severity of sanctions made a difference, it was noted that certain criminal sanctions deter more than others and in addition, civil, monetary sanctions are likely to have different effects to criminal ones, such as jail. Future work should seek to vary the type of sanctions to see how that effects the extent of the chilling effect,¹³³⁴ as one would predict that as the severity of the sanction increases, measured by both as criminal versus civil and higher versus lower, speech would be chilled even more. Simply looking at a narrow conception of deterrence, speaking versus not speaking, is not robust enough to measure the chilling effect.¹³³⁵

The concept of chilling came to the fore in the UK and was considered in *Derbyshire County Council v Times Newspapers*,¹³³⁶ which considered whether a local authority could maintain a claim for defamation damages. The House of Lords drew on the US

¹³²⁹ Mike Issac and Kate Conger, Facebook Bars Trump Through End of his Term, *New York Times* (7 January 2021); <http://www.nytimes.com/2021/01/07/technology/facebook-trump-ban.html>.

¹³³⁰ Section § 230 47 U.S.C. Communications Decency Act. See Eric Goldman, *Why Section 230 is Better than the First Amendment*, 95 NOTRE DAME L. REV. REFLECTION 33, 34 (2019).

¹³³¹ Phillip M. Napoli, *What If More Speech Is No Longer the Solution? First Amendment Theory meets Fake News and the Filter Bubble*, (2018) 70 Fed. COMM’NS L.J. 55, 88.

¹³³² Bedi, (n 1310).

¹³³³ Bedi, (n 1310) 302.

¹³³⁴ Bedi, (n 1310) 303.

¹³³⁵ Bedi, (n 1310) 303.

¹³³⁶ *Derbyshire County Council v Times Newspapers*, [1993] UKHL 18, at 8 (Lord Keith).

case of *NY Times v Sullivan*¹³³⁷ to explain that while the decision was related to the US constitutional right to freedom of speech, ‘the public interest considerations which underlaid them are no less valid in this country.’ ‘What has been described as the ‘chilling effect’ induced by the civil actions for libel is very important.’ The chilling effect was again discussed in *Reynolds v Times Newspapers Ltd*¹³³⁸ where Lord Nicholls acknowledged that ‘unpredictability and uncertainty, coupled with the high costs of defending an action, affects a journalist’s decision and may ‘chill’ the publication of true statements of fact, as well as those that are untrue. He went on to say the chill should not however, be exaggerated and could vary between different types of publications. ‘With the enunciation of some guidelines by the court, any practical problems should be manageable.’ The issue of uncertainty was raised again in *Jameel v The Wall Street Journal Europe*.¹³³⁹ Eady J gave a ruling, in the Court of Appeal stating that ‘there is no more ‘chilling effect’ upon freedom of communication, than uncertainty as to the lawfulness of one’s actions.’¹³⁴⁰ The UK courts have also extended the chilling effect to privacy cases, with exemplary damages being refused in *Mosley v News Group Newspapers Ltd*¹³⁴¹ with Eady J taking the view that such damages would have provided a form of relief in a new area of law that was unnecessary, nor legally prescribed and for that reason, the chilling effect would have been obvious. In the same case, the issue of costs was considered, when various freedom speech groups intervened¹³⁴² with concerns that any requirement to notify the subject of a story ahead of publication would give rise to the chilling effect, with a high level of costs being a risk in the defence of injunctive proceedings, even where successful.

Legal commentators have described distinctions in the use of the chilling effect. Schauer refers to ‘benign deterrence’ as an effect caused by the intentional regulation of speech or other activity properly subject to governmental control.¹³⁴³ This is comparable to what a UK Information Commissioner saw as the ‘beneficially chilling

¹³³⁷ *New York Times v Sullivan* (n 1320)

¹³³⁸ *Reynolds v Times Newspapers Ltd and Others* [1999] UKHL 45.

¹³³⁹ *Jameel v The wall Street Journal Europe Sprl* [2006] UKHL 44.

¹³⁴⁰ *Jameel* (n 1339) the Court of Appeal decision that the publication did not have recourse to the qualified privilege defence, was overturned by the House of Lords.

¹³⁴¹ *Mosely v News Group Newspapers Ltd* [2008] EWHC, 1777, 173.

¹³⁴² *Mosely* (n 1341) 103.

¹³⁴³ Schauer (n 1307) 690.

effect' of penalties to deter illegal data protection breaches.¹³⁴⁴ Cheer¹³⁴⁵ considered that some chilling effects are permissible and desirable and suggested that in order to protect reputation, defamation must chill some speech.¹³⁴⁶ Such interpretations suggest that the chilling effect can be benign and desirable where a restriction is usefully and appropriately applied. Contrasting with this view, is that of Schauer¹³⁴⁷ who describes an 'invidious' deterrence, an undesirable chill, 'which can occur not only when activity shielded by the First Amendment is implicated, but also when any behaviour safeguarded by the US Constitution is unduly discouraged.' He argues that the danger of 'invidious' deterrence lies in the fact, deterred by the fear of punishment, where some people refrain from saying or publishing something which they lawfully could and indeed, should.' As well as the harm that arises from the non-exercise of a constitutional right, this could cause 'general societal loss.'¹³⁴⁸

Barendt *et al*¹³⁴⁹ have described 'direct' and 'structural' illegitimate deterrence, or 'chilling effects.' The direct chill occurs when material is specifically changed as a result of legal considerations; the 'if in doubt, leave it out' philosophy, 'exemplified by most magazine editors and publishers' is described as 'conscious inhibition' or 'self censorship.' The authors note that this is not 'uniform' as different media experience it with notably different force.' The second category of 'structural' and 'indirect' chilling effect refers to a 'deeper, subtler way in which libel inhibits media publication'. This prevents the very creation of media content, with avoidance of 'taboo' organisations and individuals: certain subjects are treated as off limits, minefields into which it is too difficult to stray. Nothing is edited to lessen the libel risk because nothing is written in the first place.'¹³⁵⁰ Within the 'structural deterrence' is also a tendency towards a more polemical and opaque style, favouring comment over 'clear' and 'hard edged' investigatory journalism, which the authors suggest could be the result of the

¹³⁴⁴ B. Leveson, *An Inquiry into the Culture, Practices and Ethics of the Press*: (2012) Volume III, London, 1089, para 2.8.

¹³⁴⁵ U.J. Cheer *Reality and Myth: The New Zealand Media and the Chilling Effect of Defamation Law*, [Doctor of Philosophy] (University of Canterbury 2008) 62.

¹³⁴⁶ Cheer (n 1345) 63.

¹³⁴⁷ Schauer (n 1307) 690.

¹³⁴⁸ Schauer (n 1307) 693.

¹³⁴⁹ E.Barendt, L. Lustgarten, K.Norrie, H.Stephenson, *Libel and the Media: The Chilling Effect*, (Oxford, Clarendon Press 1997) 191.

¹³⁵⁰ Barendt and others (n 1349) 192.

journalistic interpretation of the fair comment defence, perceived as more lenient than the defence of justification in defamation cases.¹³⁵¹

Kendrick has suggested that the problem in applying the chilling effect concept is that 'both the detection of a problem and the imposition of a remedy involve intractable empirical difficulties' and has suggested that the US Supreme Court 'has found the chilling effect on nothing more than unpersuasive empirical guesswork.'¹³⁵² Schauer considers that however the chilling effect is defined in relation to the exercise of human rights, some deterrence of expression is inevitable, owing to the uncertainty of law and the fact that individuals are risk averse,¹³⁵³ although lawyers should seek to minimise this uncertainty in the clear design of foreseeable and accessible legislation and through comprehensible case law. Given that some sort of deterrence will always exist, the chilling effect doctrine applied by the courts allows judges to favour the protection of speech rights even in the absence of specific evidence predicting the future behaviour of individuals.¹³⁵⁴

Freedom of opinion and expression, first included in Article 19 of the UDHR, has been protected in all the relevant international human rights treaties. In international law, freedom to express opinions and ideas is considered essential at both an individual level, insofar as it contributes to the full development of a person and being a foundation stone of democratic society. Free speech is a necessary precondition to the enjoyment of other rights, such as the right to vote, free assembly, freedom of association and a free press. By virtue of the overwhelming rate of treaty ratification, which by ratifying, countries become parties to those treaties and voluntarily agree to uphold the human rights contained therein, freedom of speech is now considered to be the norm of customary international law.¹³⁵⁵ However, free speech is not an absolute right and can be limited when necessary and done in a proportionate manner. The right under Article 10(1) of the ECHR has the three components of the

¹³⁵¹ Barendt and others (n 1349) 193.

¹³⁵² Kendrick (n 1305) 1633.

¹³⁵³ Schauer (n 1307) 731.

¹³⁵⁴ Schauer (n 1307) 731-2.

¹³⁵⁵ G. Triggs, *International Law Contemporary Principles and Practices* (2nd ed. lexisNexis Butterworths Australia 2011).

freedom to hold opinions, the freedom to receive information and ideas and the freedom to impart information and ideas. This is relevant to IP, as artistic creation and performance, as well as its distribution, is seen by the court as a major contribution to the exchange of ideas and opinions, a crucial component of a democratic society.

The chilling effect *per se* provides deterrence against the freedoms set out in Article 10 of the ECHR and the US First Amendment. Punitive damages serve more than a few functions; punishment, deterrence or prevention, preserving the peace, inducing private law enforcement, compensating victims for otherwise non-compensable losses and paying the claimant's costs.¹³⁵⁶ Owen¹³⁵⁷ states that 'in this nation, punitive damages are still considered an important remedy that checks, rectifies and helps prevent extreme conduct.' Extreme misconduct can be interpreted differently and depends on the circumstances of the case.' Such damages are more about the behaviour of the defendant than the damages of the claimant; on ideas of public policy rather than individual compensation. Zipursky¹³⁵⁸ refers to the distinction between objective punitiveness, focused on the defendant's conduct and character and subjective punitiveness, the idea that the victim of a wrong is allowed to be punitive. He states that the latter theory of subjective punitiveness, which he also calls 'private vengeance,' is an important reason why punitive damages are not a recognised part of tort law in many jurisdictions outside the US and in several American states. The dominant theory in the US, is that of objective punitiveness, being that the primary purpose of awarding punitive damages is to punish the defendant, thereby deterring him and others from similar behaviour in the future.¹³⁵⁹ Schuleter argues¹³⁶⁰ that the main purposes of punitive damages are threefold; punishment, specific deterrence and general deterrence. Owen disagrees with the idea that punitive damages do not have a compensatory function.¹³⁶¹ He states that 'While American courts typically only refer to 'punishment', meaning retribution and 'deterrence,' as the purpose of punitive damages, such damages have a third important function – providing victims with

¹³⁵⁶ See D. Ellis Dorsey, *Fairness and Efficiency in the Law of Punitive Damages*, 1982-1983, 56 S.Cal.L.Rev. 1, 4, for an extensive analysis of the functions of punitive damages.

¹³⁵⁷ D.G. Owen, *Products Liability Law*, St Paul (MN): Thomson/West, 2005, 1200.

¹³⁵⁸ B.C. Zipursky, 'A Theory of Punitive Damages,' *Tex L rev*, 2005, 105-171, 154-155.

¹³⁵⁹ Restatement of Torts, § 908; L.L.Schuleter, *Punitive Damages, Volume 1*, LexisNexis, 2005a, 25; S.C. Yeazell, *Civil Procedure*, (New York: Aspen Law & Business 2008) 273.

¹³⁶⁰ Schuleter (n 1359) 29.

¹³⁶¹ Owen, *Punitive Damages* (n 864) 120-121.

compensation, sometimes called ‘aggravated damages,’ for the purpose of victim vindication and redress – despite the almost universal declaration in American law that punitive damages are ‘non-compensatory.’ It is a general belief in almost all American states that, if the conditions for awarding punitive damages are fulfilled, the defendant should be punished for the mere reason of justice. The retributive function does not only protect the interests of the harmed individual, but it also serves society as a whole.¹³⁶² Dobbs suggests¹³⁶³ that deterrence is the leading purpose of punitive damages and that to trigger extra compensatory damages when it is shown that deterrence is needed, the court should estimate the punitive damages award at the amount necessary to deter, rather than the amount necessary to inflict justly deserved punishment.

The constitutionality of punitive damages in the context of free speech in the US has long been the subject of debate and criticism in law reviews.¹³⁶⁴ As long ago as the 1980’s Alstyne suggested a variety of procedural changes in the manner that libel cases involving punitive damages were tried, including using the ‘beyond reasonable doubt’ standard of proof or applying ‘the procedural safeguards of a criminal libel trial. ‘He concluded that rather than moving to these very vexing notions, it may be better to discontinue punitive damages in civil libel cases completely.¹³⁶⁵ He also commented in 1985¹³⁶⁶ that he did not advocate the abolition of punitive damages in libel cases, but would make them more difficult to obtain, by requiring public figures ‘to prove common law malice as well as actual malice before they can collect punitive damages for libel.’ Barron¹³⁶⁷ has considered that punitive damages act as an equaliser, with such damages enabling individuals believing themselves to have been wronged by the media to do battle with the media, with mega verdicts becoming the remedy for injury that mega media inflicts.

¹³⁶² 25 C.J.S. Damages § 195; 22 Am. Jur. 2d Damages § 544.

¹³⁶³ D.B. Dobbs, ‘Ending Punishment in “Punitive Damages”’: Deterrence-Measured Remedies’ 1989 *Ala L Rev*, 831-917, 858.

¹³⁶⁴ Van Alstyne, *First Amendment Limitations on Recovery from the Press – An extended Comment on ‘The Anderson Solution,’* (1984) 25 Wm & Mary L. Rev. 793, 804-09, 806-07.

¹³⁶⁵ Van Alstyne, *First Amendment* (n 1364) 807.

¹³⁶⁶ Van Alstyne, *Punitive Damages and Libel Law*, 98 Harv. L. Rev. 847 (1985), 862.

¹³⁶⁷ Jerome A. Barron, *Punitive Damages In Libel Cases – First Amendment Equalizer?*, (1990) 47 Wash. & Lee L. rev. 105, 105. See also, Barron, *The Search For Media Accountability*, (1985) 19 SUFFOLK U.L. Rev. 789, 792.

7.5 Human rights implications in punitive damages awards

There are human rights implications in punitive damages awards generally and a particularly large award in the US case of *Browning-Ferris Industries Inc. v Kelco*,¹³⁶⁸ where the Supreme Court declined to disturb the jury's damages award of \$51,146 in compensatory damages and \$6 million in punitive damages and an earlier case of *Bankers Life & Casualty Co. v Crenshaw*,¹³⁶⁹ where the court also refused to disturb a punitive damages award of \$1.6 million, led to Professor Schwartz commenting that two of the judges in the *Browning-Ferris* case believed that excessive punitive damages violated the US Excessive Fines Clause and two others believed that they could violate the Due Process Clause. Barron noted that in the Ninth Circuit case of *Newton v NBC*,¹³⁷⁰ where the court entered judgment for \$5,000,000 in punitive damages, the First Amendment stand against punitive damages was stated with economy and clarity¹³⁷¹ in the Appellant's Brief. It stated 'Exposing the press to massive and unpredictable awards of punitive damages will inevitably chill the vigour of reporting on important public issues. When huge punitive awards are rendered by juries that routinely function without standards or guidelines the risks of injustice are grave enough; when juries render their awards in the context of First Amendment protected activities, the risks of injustice in public figure libel cases should be held unconstitutional.' The contention given was that the lack of any limitation on their outer limits, punitive damages chill free expression. This is at the heart of the First Amendment assault on punitive damages. It is not a new assault.¹³⁷² In 1989, a Report of the Association of the Bar of the City of New York declared: 'Significant constitutional considerations suggest that there should be no role for punitive damages awards under our system of free expression – not even the deterrence or punishment of knowingly reckless false speech.'¹³⁷³ The constitutional considerations were that the uncertainties associated with punitive damages created a likely risk of

¹³⁶⁸ *Browning-Ferris Industries Inc. v Kelco*, 109 S. Ct. 2909 (1989).

¹³⁶⁹ *Bankers Life & Casualty Co. v Crenshaw*, 108 S. Ct. 1645 (1988).

¹³⁷⁰ *Newton v NBC*, 677 F. Supp. 1066 (D.C. Nev. 1987).

¹³⁷¹ Barron *Punitive Damages in Libel* (n 1367) 107.

¹³⁷² Barron *Punitive Damages in Libel* (n 1367) 107.

¹³⁷³ See the *Report of the Committee on Communications Law on Punitive Damages in Libel Actions*, (1987) 42 Rec. of the Ass'n of the Bar of the City of New York, 20, 21.

self censorship.¹³⁷⁴ One way of deflecting the chilling effect argument has been to say that since punitive damages are awarded only when actual malice has been proved, the speech inhibited is by definition, speech which has been ruled to be unprotected expression, an approach taken in the case of *Maheu v Hughes Toolco*,¹³⁷⁵ where the court stated that the US Supreme Court had ‘shown a dislike for the use of punitive damages involving First Amendment cases.’ The court left open the question whether punitive damages ‘can be awarded in situations in which the high and protective standard of actual malice has been met,’¹³⁷⁶

A landmark decision of the US Supreme Court, *Gertz v Robert Welch Inc.*¹³⁷⁷ established the standard of First Amendment protection against defamation claims brought by private individuals. The court held that as long as they do not impose liability without fault, states are free to establish their own standards of liability for defamatory statements made about private individuals. The court also held that if the state standard is lower than actual malice, the standard applying to public figures, then only actual damages may be awarded. The states could not permit recovery of presumed or punitive damages absent a showing of knowledge of falsity or reckless disregard for the truth. In the subsequent case of *Dun & Bradstreet v Greenmoss Builders*,¹³⁷⁸ the court declined to reverse an award of punitive damages because the claimant was a private figure and the defamation did not involve a matter of public concern. The court observed that ‘We have long recognised that not all speech is of equal First Amendment importance.’¹³⁷⁹ ‘Speech on ‘matters of purely private concern is of less First Amendment importance.’¹³⁸⁰ In the case of *Brown & Williamson v CBS*¹³⁸¹ the court rejected an Eighth Amendment challenge to the punitive damages award stating that even if the excessive fines clause applied to civil proceedings, they concluded that the \$2,000,000 punitive damages was not excessive and although it did not refer specifically to proportionality, it based the decision on (i) whether the

¹³⁷⁴ Barron, *Punitive Damages in Libel* (n 1367) 108.

¹³⁷⁵ *Maheu v Hughes Toolco*, 569 F.2d 459, 478 (9th Cir. 1977).

¹³⁷⁶ *Maheu* (n 1375).

¹³⁷⁷ *Gertz v Robert Welch Inc.* 418 U.S. 323 (1974).

¹³⁷⁸ *Dun & Bradstreet Inc. v Greenmoss Builders Inc.* 472 U.S. 749 (1985).

¹³⁷⁹ *Dun & Bradstreet* (n 1378) 758.

¹³⁸⁰ *Dun & Bradstreet* (n 1378) 759.

¹³⁸¹ *Brown & Williamson Tobacco Corp. v CBS Inc.*, 827 F.2d 1119, 1143 n. 13 (7th Cir. 1987) *cert. denied*, 108 S. Ct. 1302 (1988).

punitive damages were excessive in relation to the attorney's fees incurred by the plaintiff and (ii) what relation did the punitive damages bear to the defendant's wealth?¹³⁸² The award against the defendant might provide some deterrent value without being destructive.¹³⁸³ The concept of proportionality, whilst not explicit was implicit and in line with marginal deterrence arguments.

The Law Commission¹³⁸⁴ considered the issue of damages in the context of freedom of expression and Article 10 of the ECHR, prior to the Human Rights Act 1998, noting that at that time, the courts had no power to enforce the ECHR rights directly. However, the Court of Appeal in *Rantzen v Mirror Group Newspapers Ltd*,¹³⁸⁵ recognised that: 'Where freedom of expression is at stake...recent authorities lend support to the proposition that Article 10 has a wider role and can properly be regarded as an articulation of some of the principles underlying the common law.' The Law Commission noted¹³⁸⁶ it had long been accepted that the ECHR could be used to resolve ambiguity in English legislation and that where there is ambiguity, the courts will presume that Parliament intended to legislate in conformity with it, rather than in conflict with it. It was stated by Lord Goff in *Attorney-General v Guardian Newspapers Ltd (No 2)*¹³⁸⁷ that: 'I conceive it to be my duty, when I am free to do so, to interpret the law in accordance with the obligations of the Crown under this treaty. The exercise of the right to freedom of expression under Article 10 may be subject to restrictions (as are prescribed by law and are necessary in a democratic society) in relation to certain prescribed matters, which include 'the interests of national security' and preventing the disclosure of information received in confidence.' It is established in the jurisprudence of the European Court of Human Rights that the word 'necessary' in this context implies the existence of a pressing social need, and that interference with freedom of expression should be no more than is proportionate to the legitimate aim

¹³⁸² *Brown & Williamson* (n 1381). The plaintiff's attorney's fees were \$1,360,000 prior to post trial motions, with the plaintiff's net worth, including his contract with the defendant, was over \$5,000,000. This was against the defendant's net worth of one to one and a half \$billion, so the \$50,000 in punitive damages was a modest one.

¹³⁸³ *Brown & Williamson* (n 1381) 1143.

¹³⁸⁴ The Law Commission Report on Damages (n 30) 74.

¹³⁸⁵ *Rantzen v Mirror Group Newspapers Ltd* [1994] QB 670, 691 C-D, (Neill L.J.) referring to *inter alia* *AG v Guardian Newspapers Ltd (No. 2)* [1990] 1 AC 109, 283, (Lord Goff); *Derbyshire County Council v Times Newspapers Ltd* [1993] AC 534, 551, (Lord Keith).

¹³⁸⁶ The Law Commission Report on Damages (n 30) 74, footnote 429.

¹³⁸⁷ *Attorney-General v Guardian* (n 1385).

pursued. *I have no reason to believe that English law, as applied in the courts, leads to any different conclusions.*¹³⁸⁸

The concept of ‘constraints’, in accordance with Article 10(2) of the ECHR was considered by the Court of Appeal in the context of jury assessed awards in defamation actions. The ‘almost limitless discretion’ of the jury when it assessed damages in defamation cases,¹³⁸⁹ as well as the excessive size of the awards which often result, have given rise to substantial judicial concern about how far this is consistent with due regard for the right of freedom of expression and for the various constraints on legitimate derogations therefrom. As a direct result, the Court of Appeal found it necessary to modify previous approaches to jury assessed damages awards. In *Rantzen v Mirror Group*,¹³⁹⁰ the Court of Appeal said ‘It seems to us that the grant of an almost limitless discretion to a jury, fails to provide a satisfactory measurement for deciding what is ‘necessary in a democratic society’ or justified by a pressing social need.’ Accordingly, in order to ensure that the restriction on freedom of expression constituted by defamation damages was ‘legitimate’, courts had to subject large awards of damages to ‘more searching scrutiny than had been customary in the past’ and the barrier against appellate intervention in jury awards should be ‘lowered’. Appellate courts should thus be more ready to find a jury award ‘excessive’ and so more often exercise their statutory power to substitute for that award, a lower award of their own. The Law Commission¹³⁹¹ noted that the lack of guidance which could be given to juries by trial judges on the assessment of damages, also caused concern in *Rantzen*. Article 10(2) of the ECHR required that any restrictions on the exercise of the right to freedom of expression should be ‘prescribed by law.’ The ECtHR has held that ‘a norm cannot be regarded as a ‘law’ unless it is formulated with sufficient precision to enable the citizen to regulate his conduct.’¹³⁹² The Law Commission stated that the unguided discretion of the jury in defamation actions breached this requirement and that the Court of Appeal in *Rantzen* clearly considered that the jury should be given concrete guidance in assessing those damages, as only then would the restriction on

¹³⁸⁸ *Attorney General v Guardian* (1385) 283G-284A.

¹³⁸⁹ *Rantzen* (n 1385) 629G, (Neill L.J.)

¹³⁹⁰ *Rantzen* (n 1385) 690G.

¹³⁹¹ The Law Commission Report on Damages (n 30) para 1.149.

¹³⁹² *The Sunday Times v The United Kingdom* (1979-80) 2 EHRR 2454, 271, para 49.

freedom of expression, created by jury assessed defamation awards, be prescribed by law. The guidance that the juries could receive, was limited, as the trial judges were permitted to refer juries to previous awards made by the Court of Appeal¹³⁹³ although the court failed to consider how that approach could apply to 'substitute' exemplary damages awards.

Further guidance was provided by the Court of Appeal in *John v Mirror Group Newspapers Ltd*¹³⁹⁴ when it elaborated a limitation which it applied specifically to exemplary damages, with reference to Article 10 of the ECHR, making such damages 'analogous to a criminal penalty,' so that the principle requires that an award of exemplary damages should never exceed the minimum sum necessary to meet the public purpose underlying such damages, that of punishing the defendant, showing that tort does not pay and deterring others. The same result is achieved by the application of Article 10. The ECtHR in *Tolstoy Miloslavsky v United Kingdom*¹³⁹⁵ held that an award of £1.5 million in compensatory damages, in conjunction with the lack of adequate judicial safeguards at trial and on appeal against disproportionately large awards at the relevant time, amounted to a violation of the defendant's rights under Article 10. The Law Commission¹³⁹⁶ could not reconcile the power of substitution of jury awards and the approach in *Rantzen* to the exercise of the power have rectified the deficiencies, as arguably, even a substantial award of exemplary damages by a jury would not *per se* infringe Article 10, because of the potential for 'substitution' on appeal. The legitimacy of exemplary damages awards as such, did not arise in the *Tolstoy* decision, as the ECtHR was not called upon to consider whether they were necessary in a democratic society for the protection of the reputation of others.

Recent UK case law involving the awarding of damages for defamation, has moved away from the concept of punishment and reverting back to compensation. In *Barron v Vines*,¹³⁹⁷ Warby J. discussed the framework for his award.¹³⁹⁸ He noted that the

¹³⁹³ Under the powers given to the court pursuant to section 8 of the Courts and Legal Services Act 1990 and Rules of the Supreme Court, Order 59 and rule 11(4), which was prior to the Civil Procedure Rules in 1998.

¹³⁹⁴ *John v MGN* (n 964) 619F-G.

¹³⁹⁵ *Tolstoy Miloslavsky v United Kingdom* (1995) 20 EHRR 442.

¹³⁹⁶ The Law Commission Report on Damages (n 30) para 1.151.

¹³⁹⁷ *Sir Kevin Barron MP (1) Rt Hon John Healey MP (2) v Caven Vines* [2016] EWHC 1226 (QB).

¹³⁹⁸ *Kevin Barron* (n 1397) [79].

current 'ceiling' on libel awards was arrived at by reference to the top figure for pain, suffering and loss of amenity in personal injury claims, which was about £275,000.¹³⁹⁹ He noted that awards at that level were reserved for the gravest of allegations, such as imputations of terrorism or murder. One must seek to place an individual case in its proper position on the scale that leads up to this maximum. He quoted the case of *John v MGN Ltd*¹⁴⁰⁰ in which a jury had awarded Elton John compensatory damages of £75,000 and exemplary damages of £275,000 for libel. Sir Thomas Bingham MR reduced the awards to £25,000 and £50,000 respectively, on the basis that they were excessive.¹⁴⁰¹ He stated that the claimant in a defamation action was entitled to recover, as general compensatory damages, such sum as would compensate him for the wrong he has suffered and must compensate him for damage to his reputation, vindicate his good name and take account of the distress, hurt and humiliation which the defamatory publication has caused. In assessing the appropriate damages, for injury to reputation, the most important factor was the gravity of the libel. Warby J. identified that practice in libel actions had developed considerably since 1997, with the Defamation Act 2013 removing the presumption of trial by jury. As a result, most damages awards in recent years have been made by judges, rather than juries and a 'more or less coherent framework of awards' has been built up,¹⁴⁰² although each case turned on its own facts.

The court was referred to Article 10 and the need for extreme caution when potentially limiting political expression through actions for defamation,¹⁴⁰³ with the focus of the jurisprudence being on the need to avoid chilling legitimate political expression by ensuring that those who speak out in good faith on political topics are not unreasonably exposed to findings of liability for defamation. The court accepted that this caution extends to the assessment of damages, as well as liability and noted that the general point had been acknowledged domestically for over 20 years, albeit the focus in the *Rantzen* case was on the chilling effect of excessive awards of

¹³⁹⁹ *Kevin Barron* (n 1397) [79], (Warby J.), citing the personal injury case of *Cairns v Modi* [2012] EWCA Civ 1382, [2013] 1 WLR 1051 [25].

¹⁴⁰⁰ *John v MGN* (n 964).

¹⁴⁰¹ *John v MGN* (n 964) 607-608.

¹⁴⁰² *Kevin Barron* (n 1397) [81].

¹⁴⁰³ See *Lingens v Austria* (1986) 8 EHRR 47 and *Steel and Morris v United Kingdom* (2004) 41 EHRR.

exemplary damages.¹⁴⁰⁴ The award in *Barron* was reached by the court having proper regard to (1) jury awards approved by the Court of Appeal, as per *Rantzen*, (614), *John*, (612); (2) the scale of the damages awarded in personal injury actions and (3) previous awards by a judge sitting without a jury, as per *John*, (608).¹⁴⁰⁵ Damages will be awarded by the court as compensation, not punishment, as per *Lachaux v Independent Print Limited*¹⁴⁰⁶ and confirmed by Nicklin LJ, in *Hijazi v Yaxley-Lennon*.¹⁴⁰⁷

These cases indicate that high awards of punitive damages, even if not expressed in those terms, for defamation claims, can only be legitimate if they are proportionate and they are only likely to be proportionate if they are applied with appropriate guidance. Punitive damages are a response to particular conduct and before they can be awarded, the definition of such conduct must be a prerequisite to those damages being awarded. The Law Commission report was broadly in favour of punitive damages generally being available in civil proceedings¹⁴⁰⁸ and this has been the approach in other common law jurisdictions such as the US and Australia, which is that a deliberate breach of duty that comes before the courts, should as a rule, be punished by way of punitive damages. The report considered that punitive damages should be imposed only where the defendant acted deliberately and to consider carefully the precautions that were necessary to ensure that there is no double punishment or double jeopardy if punitive damages were generally available in civil proceedings that is also a crime.¹⁴⁰⁹ One of the safeguards was that a higher standard of proof should be considered for punitive damages,¹⁴¹⁰ with a recommendation that the 'balance of probabilities' should be weighted in the defendant's favour in the case of serious allegations.

7.6 Conclusion

¹⁴⁰⁴ Kevin Barron (n 1397) [87].

¹⁴⁰⁵ Kevin Barron (n 1397) [7].

¹⁴⁰⁶ *Lachaux v Independent Print Limited* [2021] EWHC 1797 (QB) [226].

¹⁴⁰⁷ *Jamal Hijazi v Stephen Yaxley-Lennon* [2021] EWHC 2008 (QB), at [149].

¹⁴⁰⁸ *Jamal Hijazi* (n 1407) 5.29, 5.38.

¹⁴⁰⁹ *Jamal Hijazi* (n 1407) 5.113.

¹⁴¹⁰ *Jamal Hijazi* (n 1407) 4.99-4.101.

There is a clear discrepancy between the awarding of punitive damages for IP infringement generally, as in *PPL v Ellis*,¹⁴¹¹ which acknowledges and permits awards of punitive damages and cases such as *Rantzen*,¹⁴¹² *Lachaux*,¹⁴¹³ and *Hijazi*¹⁴¹⁴ which, as *Lachaux* illustrates, do not accept the concept of punishment in making awards, but compensation. Where awards are made, they are made by a judge, according to accepted guidelines, which provide a certain level of certainty and proportionality. This differential in the awarding of damages can be attributed to the need to protect the human rights contained in Article 10 of the ECHR, which protects freedom of expression and seeks to avoid the chilling effect on legitimate expression in good faith. There is a difference between intentional IP infringement for financial gain and expressing expression and opinion and this appears to be demonstrated by the difference in the approaches by the courts to ‘punishment damages.’ The rights under Article 10 are fundamental human rights, while the right to property is not absolute and in the case of copyright, has legislative limitations. However, punitive damages, whenever awarded, should be proportionate and absolutely necessary to provide appropriate deterrence, whilst avoiding the chilling effect that can be a by product of their imposition. The final chapter of this thesis will now assess whether copyright damages need to have a sufficient punitive element to successfully deter copyright infringement.

¹⁴¹¹ *PPL v Ellis* (n 12).

¹⁴¹² *Rantzen* (n 1385).

¹⁴¹³ *Lachaux* (n 1406)

¹⁴¹⁴ *Jamal Hijazi* (n 1407).

Chapter Eight

Conclusions

8.1 *Introduction*

The present thesis has sought to address the research question ‘whether copyright damages need to have a punitive element to successfully deter copyright infringement.’ The basis of an award of damages for copyright infringement in the UK, is set out in section 97 of the CDPA 1988. Under section 97(1), which essentially provides a defence, damages are not available where the infringer lacked the requisite knowledge that copyright subsisted in the work to which the copyright action relates. However, section 97(2) permits an award of additional damages, on the basis of all the circumstances of the case and in particular, the flagrancy of the infringement and any benefit that has accrued to the infringer as a result of the infringement. As demonstrated by the analysis in the previous chapters, copyright damages must have a punitive element to successfully deter infringement, but the punitive element should be applied in accordance with guidelines which consider certain factors, the most important of which is the infringer’s intention. It is also proposed that section 97 of the CDPA 1988, is amended to reflect such guidelines and to provide clarity as to when punitive, or additional damages will be awarded. The rationale for this assertion will be set out, followed by a suggested amendment to section 97.

8.2 *The weakness of the existing regime of awarding damages*

As set out in the introduction, what is apparent from this research is that the enforcement and litigation process for IP infringement has decisive leverage for the performance of the whole system¹⁴¹⁵ and the only question that should be asked, is ‘What level of deterrent works?’¹⁴¹⁶ as ineffective rights are worse than no rights at all.¹⁴¹⁷ Therefore, any damages regime requires those damages to go beyond

¹⁴¹⁵ Harkoff (n 1) 18.

¹⁴¹⁶ Patry (n 3).

¹⁴¹⁷ Hargreaves Review (n 5), para 8.1.

compensation and to have a sufficient punitive element to provide a successful level of deterrence. The UK has traditionally awarded damages for copyright infringement on the basis of compensation rather than punishment, without providing any deterrent to infringement. Even in 2007, the Alliance Against Intellectual Property Theft (AAIT)¹⁴¹⁸ had recommended that the CDPA 1988 was amended to explicitly allow the court to order *exemplary or aggravated* damages, on the basis that deterrent damages were necessary to create an environment in which creative industries can flourish and that the UK needed to provide civil damages that serve as a visible deterrent.¹⁴¹⁹ The AAIT argued that if infringers were faced with the real possibility of pre-established or statutory damages, such as the full retail price or some multiples of that price, it would have an important role in deterring the infringement by removing the incentive to infringe.¹⁴²⁰ The removal of the incentive to infringe is a strong argument in favour of punitive damages and is not necessarily merely punishment oriented, as punishment is relevant to previous infringement, not future infringement. Whilst it is difficult to accurately assess the level of infringing activity, the expansion of the internet has resulted in the proliferation of piracy, both on a commercial scale as well as on a smaller scale by individuals. Copyright lacks the protection of registration in the UK and it is not always easy for the copyright holder to assess loss, let alone to prove that loss. The creative industries will not flourish if rights cannot be protected and detection of infringement remains difficult, with enforcement generally low. Copyright represents innovation and creativity and damages awards should reflect the value that society places on those factors. Copyright infringement can be undertaken very easily by individuals, especially by downloading songs and films and the internet facilitates this. Therefore, copyright infringement requires deterrent penalties which will eliminate or reduce illegal activity. Compensation by way of damages does not necessarily achieve that aim.

The basis of awarding damages in the UK is set out in the case of *General Tyre & Rubber Co v Firestone Tyre & Rubber Co Ltd*,¹⁴²¹ which sets as the objective,

¹⁴¹⁸ The AAIT Report (n 14) 4, 6.

¹⁴¹⁹ The AAIT Report (n 14) 4, 6.

¹⁴²⁰ The AAIT Report (n 14) 7, 8.

¹⁴²¹ *General Tyre* (n 9).

compensation not punishment,¹⁴²² but which fails to provide an adequate deterrent to copyright infringement. The basis for such an award, the profit that the right holder would have made; royalty bearing licences or damages based upon the 'user principle', where it is not possible to assess the profit, fails to adequately deter future infringing conduct, whether by the infringer or other potential infringers. An account of profit is expensive and difficult to prove and royalty based damages only require the infringer to pay that which he would have had to pay, if he had acted legally. The assessment of damages is often a rough and ready calculation¹⁴²³ and requires the right holder to prove their loss, often an expensive and difficult exercise, especially in the process of accounting for profits. Many copyright infringement cases result in agreement or are disposed of by way of injunctive relief, so the infringer frequently pays the right holder less than could be considered a deterrent level award and this also fails to provide any incentive not to infringe.

8.3 *Deterrence*

There are two types of deterrent, specific and general deterrence, with specific deterrence concerned with deterring the wrongdoer from engaging in the unlawful conduct in the future and general deterrence deterring others from engaging in the unlawful acts. The philosophers Thomas Hobbes, Cesare Beccaria and Jeremy Bentham¹⁴²⁴ undertook work, from which emerged three individual components of punishment; severity, certainty and celerity (or swift punishment). The more severe the punishment, the more likely it is that individuals will desist from criminal acts, the punishment should be certain and it should be swift. Polinsky and Shavell¹⁴²⁵ stated that to achieve appropriate deterrence, injurers should be made to pay for the harm they cause, not less, not more. It is arguable that in order to be effective, punitive damages should be assessed at a sufficient level to dissuade the infringer from repeating his conduct and in order to dissuade society in general, so these damages

¹⁴²² *General Tyre* (n 9) [215].

¹⁴²³ *Gerber* (n 56) (Jacob J).

¹⁴²⁴ Hobbes, (n 114); Beccaria (n 115); Bentham (119).

¹⁴²⁵ Polinsky and Shavell, *Punitive Damages* (n 153) 890.

need to be certain in their availability and application and to be well publicised. Any punitive damages regime therefore, requires a balanced approach.

8.4 *The international standard*

The international minimum standard of IP enforcement set out in Article 45.1 of the TRIPS Agreement, provides for damages adequate to compensate the right holder for the injury suffered as a result of the infringement, in cases where the infringer has the requisite knowledge. Article 45.2 of TRIPS permits the payment of pre-established damages even where the requisite knowledge is absent. These damages are optional rather than being mandated and the UK does not provide for them. That is a weakness in the system. Academic opinion is divided as to whether the availability of pre-established damages in TRIPS is a way of providing for punitive damages. Gervais argues that whilst punitive damages are not mandatory in TRIPS, they are consistent with its general provisions, so as to further the goals of effectiveness and deterrence,¹⁴²⁶ whilst Vander takes the opposite view, that the TRIPS Agreement should have made the provision of punitive damages explicit, so that it is a true reflection of those goals.¹⁴²⁷ If the availability of punitive damages is explicit and based upon a clear rationale, their application should be more straightforward and the concept more readily understood.

The CPTPP,¹⁴²⁸ in Article 18.73(3), reflects the damages provisions found in Article 45.1 of the TRIPS Agreement, but Article 18.74(5) mandates the availability of an account of profits, at least where the requisite knowledge is present. However, Member States are required to provide for statutory damages, as well as punitive and exemplary damages.¹⁴²⁹ The pre-established damages available under Article 18.74(6)(a) are to be available on the election of the right holder, with additional damages being the alternative¹⁴³⁰ and these *may* include exemplary or punitive damages. With the UK becoming a party to the CPTPP, the option of pre-established damages currently

¹⁴²⁶ Gervais, *TRIPS Drafting History* (n 264) 582.

¹⁴²⁷ Stoll and Others (n 266) 721.

¹⁴²⁸ The CPTPP.

¹⁴²⁹ CPTPP, art 18.74(6)-(7), nn 111-12.

¹⁴³⁰ CPTPP, art 18.74(6)(b).

permitted under TRIPS, will become a requirement under the CPTPP.¹⁴³¹ While the case of *PPL v Ellis*¹⁴³² now explicitly permits the court to award punitive damages, the CDPA 1988 will need to be amended to reflect the mandatory aspect of the CPTPP, as well as the mandatory availability of an account of profits under Article 18.74(5). Section 97(2) should be redrafted completely to provide clarity as to when punitive, or additional damages can be awarded and to allow compliance with FTA's.

8.5 *The TCA 2020 post Brexit*

The TCA 2020,¹⁴³³ which came into force in 2021, following Brexit, will not fundamentally affect copyright enforcement in the UK. IP rights will continue to be protected to at least the standards required by international agreements to which the EU and UK are parties. The CDPA 1988 generally does not reflect the wording of various EU Directives, relying on the *Marleasing Principle*¹⁴³⁴ to construe the legislation in accordance with EU law. IP enforcement is contained in Chapter 3 of Title V of the TCA 2020, with Section 2 reflecting the provisions of the Enforcement Directive 2004/48/EC and Article 265 of the TCA 2020, which contains the damages provisions, does not substantially differ from Article 13 of the Enforcement Directive. The legislation does not provide for a punitive element, but the General Obligations of the TCA 2020, reflect Article 3 of the Directive, with reference to 'measures, procedures and remedies' being dissuasive. With the UK becoming a signatory to the CPTPP, it will have to find a way to bring together all of its obligations under the FTA's to which it is a party, which merits redrafting of the 1988 legislation. This is preferable to the court having to exercise its discretion in the way that was undertaken in the *Absolute Lofts* case,¹⁴³⁵ with the two regimes of section 97(2) of the CDPA 1988 and Article 13 of the Enforcement Directive 2004/48/EC needing to be assessed simultaneously.

¹⁴³¹ Johnson, *Intellectual Property Free Trade Agreements* (n 310) 188. The UK has since become a party to the CPTPP, signing the Agreement on 16 July 2023.

¹⁴³² *PPL v Ellis* (n 12).

¹⁴³³ The TCA 2020.

¹⁴³⁴ *Marleasing* (n 332).

¹⁴³⁵ *Absolute Lofts* (n 497).

As the TCA 2020 has effectively reflects the Enforcement Directive 2004/48/EC, the UK will still have to apply the provisions of Article 13, even if they are not referred to as such. Article 13(2) permits the recovery of profits or pre-established damages where the infringer did not have the requisite knowledge that he was engaging in an infringing activity. This provision is not mandatory and the objective of the Directive is to compensate not to punish,¹⁴³⁶ with damages being appropriate to the actual prejudice suffered by the right holder, so there is no punitive element to an award of damages under that provision. The European courts have however, recognised the need for a deterrent effect in the assessment of damages, notwithstanding the objective of compensation not punishment.¹⁴³⁷ In the *OTK* case¹⁴³⁸ the CJEU held that whilst the Enforcement Directive did not entail an obligation to provide for punitive damages, it sets a minimum standard and does not prevent Member States from applying more protective measures.¹⁴³⁹ The UK courts have also found that the requirements of effectiveness, proportionality and deterrence were compliant with an account of profits,¹⁴⁴⁰ with the issue of deterrence arising from the fact that the infringer will be aware that they will not be able to retain any profits from the infringement.¹⁴⁴¹ Where it is difficult to assess lost profits, the dissuasive element of the remedy is lost, as the right holder may not wish to go to the expense of attempting to prove the full extent of the loss.

8.6 Punitive damages and deterrence in the UK

The UK judiciary has continued to make reference to deterrence in the case law¹⁴⁴² where additional awards were made under section 97(2) of the CDPA 1988, based upon the infringer's flagrancy and the need for deterrence. The law has come some distance since *Rookes v Barnard*¹⁴⁴³ where punitive damages could only be awarded in

¹⁴³⁶ Enforcement Directive 2004/48/EC, Recital 26.

¹⁴³⁷ *Kone* (n 406).

¹⁴³⁸ *OTK* (n 413).

¹⁴³⁹ *OTK* (n 413) [23].

¹⁴⁴⁰ *Hollister* (n 436) [60] [65] [69] (Kitchen J).

¹⁴⁴¹ *Hollister* (n 436) [69].

¹⁴⁴² See for example *Absolute Lofts* (n 497); *PPL v Hagan* (n 262).

¹⁴⁴³ *Rookes v Barnard* (n 423).

limited categories of case.¹⁴⁴⁴ In *PPL v Ellis*¹⁴⁴⁵ Lewison LJ confirmed that the legal character of the damages available under section 97(2) of the CDPA 1988 is *sui generis* and additional damages do not need to be shoehorned into existing general legal taxonomy; they are a form of damages authorised by statute and additional damages under section 97(2) may be partly, or indeed wholly punitive.¹⁴⁴⁶ The utility of an award of additional damages serve as a valuable deterrent effect both on the infringer in the particular case under consideration and also more widely, in that they send a general message that infringement does not pay.¹⁴⁴⁷ Historically, the courts have not sufficiently addressed the rationale for additional damages, but they fall comfortably within the basis for specific and general deterrence.

8.7 Punitive damages in Australia

Outside the UK, punitive damages have had a clear rationale, such as in Australia, where under the Copyright Act 1968, punitive damages are classed as additional damages and they have an explicit rationale of deterrence. Section 115(4) of that legislation includes guidelines for the court to take into account when making an award of additional damages. These guidelines include a number of factors including an explicit reference to the need to deter similar infringements of copyright. Australia progressed beyond the UK in its embrace of punitive damages, having first considered the concept of these damages in 1920.¹⁴⁴⁸ It digressed from the UK approach in 1966,¹⁴⁴⁹ with the High Court holding that the restrictive approach to exemplary damages did not apply in Australia. The Australian Courts take many factors into consideration in addition to those set out in Section 115 of the 1968 legislation. These are reflected in the case law and include all aggravating and mitigating factors, the means of the defendant and whether any other substantial punishment has been imposed, such as a criminal penalty. The court has to achieve moderation in the assessment of exemplary damages, but there is no explicit requirement for

¹⁴⁴⁴ *Rookes v Barnard* (n 423) 1125-1126 (Lord Devlin).

¹⁴⁴⁵ *PPL v Ellis* (n 12).

¹⁴⁴⁶ *PPL v Ellis* (n 12)[37].

¹⁴⁴⁷ *PPL v Ellis* (n 12) [38].

¹⁴⁴⁸ See *Whitfield* (n 1062) 77 (Knox CJ).

¹⁴⁴⁹ See the case of *Uren* (n 890).

proportionality. The application of the guidelines under section 115(4) of the act is mandatory and have to be considered before the court can assess whether it is proper to make an award of additional damages although it is not necessary for all factors to apply to a given case. The court only has to be satisfied that *one or more* of the circumstances set out in section 115(4)(b) are present and it then has the discretion to award such damages as it considers appropriate.¹⁴⁵⁰ The Australian case law has also made reference to the need to include both specific and general deterrence when assessing additional damages¹⁴⁵¹ with the law providing a clear rationale for making such an award. In the assessment of such damages, the Australian courts do their best to settle upon an appropriate figure in light of all the available evidence¹⁴⁵² and the court has a very wide discretion, with the award being moderate but not excessive. The concept of marginal deterrence is relevant, as the court will take into account aspects such as the size of the infringer's business and the impact of such an award on the infringer. No greater punishment should be imposed than the criminal law permits and there should be no doubling up of awards.¹⁴⁵³

8.8 Punitive damages in the US

The Australian system for awarding punitive damages is preferable to that in the US, where such damages have been awarded since the 1800's¹⁴⁵⁴ and have been an established feature of US tort law. The US copyright law in 17 U.S.C. §504¹⁴⁵⁵ contains the provisions relating to the remedies for infringement of copyright. Unlike the UK, the US courts are permitted to award actual damages as well as additional profits,¹⁴⁵⁶ with statutory damages being an alternative to both and which the right holder may elect to recover at any time prior to the final judgment.¹⁴⁵⁷ The base figure for the statutory damages is \$750, with the maximum \$30,000 as the court considers to be just. Under §504(2), the court is permitted to increase those damages up to a figure of

¹⁴⁵⁰ *Raben Footwear* (n 1102)103 (Tamberlin J).

¹⁴⁵¹ *Henley Arch* (1119) [259] and [262] (Beach J); *Microsoft Corporation* (n 1120).

¹⁴⁵² *Australia Performing Right Association v Riceboy* (n 1132) [29].

¹⁴⁵³ See *Facton* (n 1081).

¹⁴⁵⁴ See *Genay* (n 872).

¹⁴⁵⁵ 17 U.S.C. §504

¹⁴⁵⁶ 17 U.S.C. §504(a) and (b).

¹⁴⁵⁷ 17 U.S.C. §504.

\$150,000 where the infringer had the requisite knowledge. Where the burden is on the infringer to prove that they were unaware of, or had no reason to believe that their acts constituted an infringement of copyright, the court has the discretion to reduce the award to \$200.¹⁴⁵⁸ The US system does not provide for punitive damages for copyright infringement, with the choice being damages, profits or statutory damages, the latter being awarded in 90 per cent of US copyright cases.¹⁴⁵⁹ It is apparent that such damages avoid conjecture on the part of the court, or the expense of proving the right holder's losses, but it has been argued that the US should understand and restructure punitive damages, in part to advance the public interest in retributive justice and that if the public have no knowledge or understanding of the concept, punitive damages will have less of an impact on the goal of punishment and more so, deterrence.¹⁴⁶⁰

US tort law differs from US copyright law in that punitive damages are well used and awarded by juries, leading to excessively high awards. The issue of excessiveness was considered in the case of *Exxon Shipping Co v Baker*,¹⁴⁶¹ where the US Supreme Court reduced an award of \$5 billion to \$2.5 billion and was asked to consider whether the damages were excessive. The court found that they were and focused on the unpredictability of punitive damages.¹⁴⁶² The primary aim of the court was to find a solution to the unpredictability of awards and it found that a punitive damages award must be 'reasonably predictable in its severity.'¹⁴⁶³ The best approach was considered to be a ratio of punitive damages to the compensatory damages, applying a 1.1 ratio against the calculation of the compensation award of \$507.5 million, which was the maximum punitive damages award in maritime cases, such as this case and that this would address the 'stark unpredictability of punitive damages awards.'¹⁴⁶⁴ This approach however, lacked the use of judicial discretion when the circumstances of a particular case demand it. Authors, VasIU and VasIU¹⁴⁶⁵ have analysed the awarding of

¹⁴⁵⁸ There is also provision under §504(d) for what are described as additional damages relating to licensing in establishments.

¹⁴⁵⁹ Depoorter, *Copyright Enforcement* (n 73).

¹⁴⁶⁰ See Dan Markel, *Retributive Damages* (2009) and *How Should Punitive Damages Work?* (2009).

¹⁴⁶¹ *Exxon Shipping*, 554 U.S. 471, 128 S.Ct. 2605 (U.S. 2008).

¹⁴⁶² *Exxon Shipping* (n 1461) §497-499.

¹⁴⁶³ *Exxon Shipping* (n 1461) §502.

¹⁴⁶⁴ *Exxon Shipping* (n 1461) §472.

¹⁴⁶⁵ VasIU and VasIU (n 74).

damages in copyright cases, concluding that there are a number of characteristics are not desirable in litigation, such as over claiming, over deterrence, convoluted procedures, ambiguity and a lack of rules relating to calculation, as well as inconsistency. The application of statutory damages exposed various, often contradicting approaches to the use of multipliers and awards calculation. They too, recommended a mathematical relationship between compensatory and punitive damages. However, this also removes the benefit of judicial discretion.

8.9 *Punitive damages and the chilling effect*

Punitive damages may also have a chilling effect on freedom of expression under Article 10 of the ECHR by regulating conduct because citizens fear sanctions. There are human rights issues in punitive damages awards and this has been illustrated by the case of *Rantzen v Mirror Group*.¹⁴⁶⁶ The Court of Appeal had to assess the concept of constraints on legitimate derogations from the freedom of expression permitted under Article 10. This was considered in the context of jury assessed awards in defamation actions and the ‘almost limitless discretion’ of the jury in such cases, along with the size of the awards which are often made. The Court of Appeal held that the grant of an almost unlimited discretion to a jury, failed to provide a satisfactory measurement for deciding what is ‘necessary in a democratic society,’ or ‘justified as a pressing social need.’ The court recommended that the courts had to subject large awards of damages to ‘more searching scrutiny than had been customary in the past’ and the barrier against appellate intervention should be lowered,’ with appellate courts being more ready to find a jury award ‘excessive’. The Law commission had also noted the lack of guidance which could be given to juries by trial judges on the assessment of damages was a concern.¹⁴⁶⁷ Article 10(2) of the ECHR required that any restrictions on the exercise of the right to freedom of expression should be ‘prescribed by law’ and ‘a norm cannot be regarded as a law unless it is formulated with sufficient precision to enable the citizen to regulate his conduct’.¹⁴⁶⁸ The unguided discretion of the jury in defamation actions breached this requirement and juries should be given concrete

¹⁴⁶⁶ *Rantzen* (n 1385).

¹⁴⁶⁷ The Law Commission Report on Damages (n 30) para 1.149.

¹⁴⁶⁸ *The Sunday Times v The United Kingdom* (1979-80) 2 EHRR 2454, 271.

guidance in assessing those damages. Exemplary damages should be analogous to a criminal penalty, so that the principle requires that an award of exemplary damages should never exceed the minimum sum necessary to meet the public purpose underlying such damages, that of punishing the defendant, showing that tort does not pay and deterring others.¹⁴⁶⁹ Recent case law involving awards for defamation has moved away from the concept of punishment and reverted back to compensation. This is in contrast to copyright law following the case of *PPL v Ellis*.¹⁴⁷⁰ In *Barren v Vines*¹⁴⁷¹ Mr Justice Warby noted that the current ceiling on libel awards was arrived at by reference to the top figure for pain, suffering and loss of amenity in personal injury claims, which was about £275,000.¹⁴⁷² Whilst this top figure may represent a reasonable maximum sum in itself, it is questionable whether significant and serious physical or psychological injury equates with defamation or copyright and each area should have its own specific guidelines.

8.10 *What does the research demonstrate?*

The research has considered the concept of deterrence and how it applies to the offending individual and society at large. It has considered the basis for awarding damages in the UK as compensation, showing how the legal remedies for copyright infringement have evolved to provide a *sui generis* rationale for awarding punitive damages, following *PPL v Ellis*.¹⁴⁷³ The research has considered the legal basis for awarding damages internationally, via TRIPS and other FTA's to which the UK is now a signatory, such as the CPTPP. It has taken into account the Enforcement Directive 2004/48/EC and how its provisions will continue to apply to UK legislation following the entry into force of the TCA 2020. It has attempted to demonstrate the evolution of punitive, or additional damages in copyright law, both in the UK as well as in the US and Australia. UK law, EU case law and the law in other jurisdictions such as the US and Australia, permit punitive damages and there is a very strong argument for the proposition for stating that copyright damages need to have punitive element to

¹⁴⁶⁹ *John v MGN* (n 964).

¹⁴⁷⁰ *PPL v Ellis* (n 12).

¹⁴⁷¹ Kevin Barron (n 1397)

¹⁴⁷² Kevin Barron (n 1397).

¹⁴⁷³ *PPL v Ellis* (n 12).

successfully deter infringement. The underlying theme is that punitive damages serve a purpose. That purpose is to remove the incentive for the defendant to infringe, showing that infringing conduct does not pay, as well as deterring third parties from similar infringement. Copyright damages therefore do require a sufficient punitive element to successfully deter infringement, but that success depends on the appropriateness of their application. That application requires guidelines and judicial discretion in their application.

What stands out from the research is not so much whether punitive damages are appropriate *per se*, which it is argued that they are, but that it is the basis for awarding them that is the central issue. Punitive damages should be proportionate and never excessive. They should not exceed the purpose of marginal deterrence or be higher than is necessary in a particular case, to achieve the desired deterrent effect. Jury awarded damages in the US, or the previous jury awards for defamation in the UK are an example of where punitive penalties become excessive or ‘monstrous.’ The Australian Copyright Act 1968, is an example of legislation that allows the judiciary to make an award of damages, with guidelines for additional damages which are explicit in their purpose of deterrence. Copyright legislation should be clear that an act of infringement needs to have occurred, with clarity as to the relief permitted for infringement. It is something of an anomaly for actual damages to be unavailable for innocent infringement, but that additional damages are permissible for infringement where the requisite knowledge is absent. Knowledge and flagrancy should be factors which are directed at the level of the award that is made.

In the UK, the courts historically, have been very reluctant to award punitive damages for copyright infringement and until *PPL v Ellis*¹⁴⁷⁴ there was no clear basis or rationale for them. The court has taken a large step forward in its approach to punitive damages in this case with an apparent recognition that copyright damages do need to have a sufficient punitive element to successfully deter infringement.

¹⁴⁷⁴ *PPL v Ellis* (n 12).

8.11 *Proposed amendments to Section 97 of the CDPA 1988*

The proposed amendment to section 97 of the CDPA 1988 would provide that, where the court has made a determination that there has been an infringement of copyright, it shall order financial remedies which are effective, proportionate and dissuasive. The remedies that are available to the court, are (a) compensatory damages and (b) additional or punitive damages. The court should assess the compensatory award first, before going on to assess whether the circumstances of the case are such, that an additional award is appropriate and the level of that award, which should be assessed in accordance with the current edition of the Judicial College Guidelines for the Assessment of Damages for Copyright Infringement. It is proposed that the Judicial College should publish such a specific guide, rather than rely on guidelines for personal injury awards or criminal conduct. Such guidelines may also be utilised where it is difficult or impossible to accurately assess the loss to the claimant by way of compensatory damages, acting as pre-established damages.

Where the court is assessing an award of additional damages, it should take account of the following factors: the overriding factor being whether the infringer had the requisite knowledge. The factors proposed are: the flagrancy of the infringing activity and whether the infringer knew or had reason to believe that they were engaged in an infringing activity; the overall financial value of the infringing act, or acts; the period of time over which the infringing act or acts had occurred; the apparent level of sophistication of the infringing act or acts; the profits lost by the right holder; whether the infringing act or acts caused or created a risk of harm to the public generally or to any person; any damage caused to the reputation of the right holder, by way of his intellectual property right or his business concerning that right; whether the circumstances of the case merit an award that has a deterrent effect; whether the infringing act or acts were undertaken as part of an organised activity, involving more than two individuals; the existence of any commercial relationship between the parties prior to, or during the infringing activities; whether the infringer has received a Notice to Cease and Desist the infringing act or acts, but continued with the infringement thereafter, as well as the length of time of that continuation and all the circumstances

of the case. These factors can also inform the court when the award is based on a pre-established basis.

8.12 *Future research*

This research has highlighted the issues which have a bearing on the awarding of punitive damages for copyright infringement, as well as considering the question of whether damages for copyright infringement require a sufficient punitive element. Further research needs to be undertaken, preferably when the impact of *PPL v Ellis*¹⁴⁷⁵ is known, if indeed there are sufficient copyright cases taken to the damages inquiry stage for such an impact to be measured. This has proved to be a limitation in this research insofar as the UK is concerned, as so few cases reach the assessment stage. The Intellectual Property Enterprise Court (IPEC) is well placed to measure and assess the outcome of copyright cases and the incidence of punitive damages being awarded, as well as the amounts and basis for such awards. The UK is fortunate to have the Intellectual Property Office (IPO), which is active in undertaking research and providing mediation to parties seeking to settle disputes. This is an organisation that could be pro active in future research to follow up the conclusions of this thesis. The UK Government has, in 2006 and 2011, with the Gower's Review¹⁴⁷⁶ and the Hargreaves Review,¹⁴⁷⁷ sought to consider the state of IP enforcement in the UK. However, these Reviews were general and superficial and have failed to provide concrete solutions to the issue of deterrent penalties. It is therefore hoped that this thesis can contribute to any future research.

¹⁴⁷⁵ *PPL v Ellis* (n 12).

¹⁴⁷⁶ The Gower's Review (n 4).

¹⁴⁷⁷ Hargreaves Review (n 5).

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JANE HELENA SUSAN FOULSER-MCFARLANE

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