

Remedies Cases
Intellectual Property
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Marie Claire Album SA v. Hartstone Hosiery Ltd. . . . page 1

Norwich Pharmacal Co. and Others Appellants v. Customs and Excise Commissioners . . . page 4

Bank Mellat v. Nikpour . . . page 9

In the Chappell case . . . page 10

Bowden Controls Ltd v Acco Cable Controls Ltd and Anor . . . page 34

American Cyanamid Co v Ethicon Ltd . . . page 39

Catnic Components Ltd. and Another v. Hill & Smith Ltd. . . . page 45

Redrow Homes Limited and Others v. Bett Brothers Plc and Others . . . page 55

Ludlow Music Inc. v. Williams . . . page 61

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Marie Claire Album SA v. Hartstone Hosiery Ltd.

In the Court of High Justice--Chancery Division

Ch D

Before: Mr. Justice Chadwick

Judgment delivered 7 December 1992

Chadwick J.:

The second plaintiff is the publisher in England of a monthly magazine under the name Marie Claire. That magazine has been published in the English language since 1988. Before that there was a limited circulation in England amounting to some five to six thousand copies per issue of the French language edition. The French publication has a much longer history. It began in the 1930s. It was suspended during the war years and was revived in or about 1954. It was distributed widely throughout Europe and gained a substantial circulation. I understand that national language editions are now available in most European countries. In particular there has been, for some years, an edition published in Spain in the Spanish language.

The magazine is intended to appeal to women in their mid-20s to 30s who are fashion conscious, affluent and educated. The first plaintiff (a French company) is concerned to promote Marie Claire publications and to exploit whatever commercial opportunities may be derived from the use of the Marie Claire name.

In the present action the plaintiffs seek an interlocutory injunction to restrain the defendant from advertising, promoting, offering or exposing for sale, selling, supplying or in any other way dealing in or disposing of hosiery under or by reference to the name or mark "Marie Claire" or any colourable variation thereof. Although not expressly so limited in the notice of motion I understand that it is not intended that the injunction sought should extend beyond the United Kingdom. In the alternative, the plaintiffs seek a more limited injunction restraining the defendant from advertising or selling hosiery in packaging similar to that which is exhibit CT3 to an affidavit sworn by Catrine Turner in this action, or any other packaging which bears the name "Marie Claire" unless, in either such case, the packaging bears the word "Asnar" in

characters which are at least as prominent as "Marie Claire."

The defendant is a manufacturer and distributor of hosiery with a substantial business in the United Kingdom and continental Europe. It has expanded its business rapidly since 1989 and now has a turnover of some £40 million per annum. It is engaged in the supply of both own brand and branded goods through specialist stores and multiples in the United Kingdom. Examples of branded goods are Bear brand, Berkshire and Pierre Balmain Hosiery. The last name is sold under licence from the well known couturier of that name.

The learned judge dealt with the (substantive) issues raised at the hearing and concluded thus:

It is for those reasons that I refuse the injunction.

There are two other matters which I should mention. The first matter (and an additional matter relied upon by the defendant) is the alleged delay by the plaintiffs.

The learned judge then considered the question of delay and continued:

The second matter which I mention is that of clean hands. There are a number of incidents, or features, in this case on which the defendant relies in support of its contention that the plaintiffs do not come to court with clean hands; in the sense that the plaintiffs are said to have been guilty of conduct in relation to the proceedings which is of such a nature as to disentitle them to equitable relief.

I do not take these matters into account in refusing to grant the injunction; but, in case this matter should go further, there is one incident which I should mention. As I have indicated, the letter before action was sent on 26 June 1992. As a result of delays in the defendant's offices it was not until 13 July, or thereabouts, that that letter reached the defendant's solicitors. On 14 July Miss Aldersley-Williams, on behalf of the defendant's solicitors, discussed the matter with Miss Turner, the solicitor dealing with the proposed action on behalf of the plaintiffs, and asked for time to respond to that letter. Miss Turner was aware at the time of that conversation, but did not tell Miss Aldersley-Williams, that a meeting had been arranged for the evening of that day, 14 July, between the manager of a retail shop in Knightsbridge (Miss Edwards) and a sales representative of the defendant (Mr. Lewell). That meeting took place and was attended by

Mr. Lewell, Miss Edwards, Miss Turner and two representatives of inquiry agents--Messrs. Rice & Co. For a description of the purpose of that meeting I refer to paragraph 3 in the affidavit sworn by Miss Turner on 24 July 1992:

The presentation had been arranged by Miss Elaine Edwards at the request of Rice & Co. and myself to enable the plaintiffs to examine a sample of the defendant's new range of hosiery called Marie Claire, as well as to observe the behaviour of a representative of the defendant in a sales situation. The representative of the defendant did not know the true purpose of the meeting and was under the impression that the Charles Jordan shop in question was a potential customer which might purchase some lines of the defendant's hosiery. Miss Edwards played her real life role as shop manager. Mr. Reynolds, Mr. Mee and myself all posed as members of staff.

There then follows a description of what occurred at the meeting. There is exhibited a tape recorded transcript of the conversation which took place. The fact that the conversation was tape recorded was not made known to Mr. Lewell at the time, nor--so far as one can see--until it was exhibited to Miss Turner's affidavit, sworn some 10 days later.

The defendant criticised the circumstances in which that meeting took place, and the role adopted by Miss Turner in relation to it. Miss Turner's role is, as I understand it, the subject of a complaint to the Solicitors' Complaints Bureau.

Mr. Sparrow, on behalf of the defendant, relies on the circumstances of that meeting in support of his submission that the plaintiffs do not come to the court with clean hands. The plaintiffs' case, in answer to this submission, is that it is perfectly proper for a solicitor, knowing that the other party to litigation (or contemplated litigation) has instructed solicitors, to approach or contact that other party for the purpose of testing how that party is representing the goods which he is supplying to the public or to the trade in such a way as to deceive that other party (by positive misrepresentation, if necessary) into the belief that he or she is not a solicitor.

I have had the advantage of submissions by Mr. Laddie, who has been instructed on behalf of the plaintiffs' solicitors themselves for the

purpose. Mr. Laddie points out to me that, whatever the courts may think of test or trap orders in intellectual property cases they are a necessary means of obtaining evidence as to what the other party is actually doing; and they have become an accepted norm. He has referred me to a number of cases in which such methods have been used. He points out (and, I think, points out correctly) that any trap or test order is bound to involve some element of deception upon the other party. At the lowest, the deception will take the form of the passive and unexpressed representation that the buyer of the product is an ordinary buyer interested in purchasing the product for the usual purposes in connection with which such a product is purchased. That, of course, will not be the case if the purchase is made for the purpose of gathering evidence.

Mr. Laddie urges upon me that there is no sensible distinction to be made between a passive, or unexpressed, representation of that nature and a representation of a positive nature that the buyer is not whom he or she appears to be.

In the course of his submissions Mr. Laddie referred me to the decision of the Court of Appeal in *Sony Corporation v. Saray* [1983] F.S.R. 302. In that case the judge at first instance had accepted undertakings from the defendant, Saray; including an undertaking not to represent to any customer, or potential customer, that the defendant was an authorised dealer of or connected with the plaintiffs or representing, contrary to fact, that any goods supplied by the defendant were covered by guarantees from the plaintiffs.

The plaintiffs, not being content with those undertakings, appealed. In the interval between the hearing before the judge and the hearing of the appeal the plaintiffs took steps to discover whether the undertakings were, in fact, adequate. I read from the report at page 307:

The plaintiffs were concerned to find out whether that which the learned deputy judge thought was adequate to protect them was in fact adequate and as a result on 4 January 1983 a Mr. Thorne, who is a solicitor, visited the Saray shop in Tottenham Court Road. His affidavit which was admitted at this hearing with the consent of the defendants reads as follows:

"The purpose of my visit was to

obtain some indication of the effectiveness of the existing undertakings given by the defendants to the court at the hearing before Mr. Vivian Price, Q.C. sitting as a deputy high court judge. I was in the company of Mr. Roger, barrister. I explained to an assistant at the shop that I was interested in Sony stereo personal tape recorders. He let me try what I recognised as a Sony type TCN3 portable personal tape recorder. After examining the machine I asked another assistant as to the guarantee provisions attaching to the machine. This assistant told me that the machine was guaranteed by law. It was guaranteed for one year. I asked him what would happen if the machine went wrong. He said I could take it either to Sony or to any Sony dealer or to Saray's and it would be covered by a guarantee."

The judgment of Lawton L.J. goes on:

This was clearly a further representation that Saray's were in a position to effect on behalf of customers effective Sony guarantees, whereas it is clear that they were not. In those circumstances, in my judgment, something more is required.

The Court of Appeal took the view that the undertakings were not sufficient and needed to be replaced by an order. Mr. Laddie points out that there is nothing in the report to suggest that Lawton L.J. or the other two members of the Court of Appeal--May L.J. and Dillon L.J.--thought there was anything in the least surprising or unsatisfactory in the account which Mr. Thorne had given of his visit to Saray.

In the course of argument I put to Mr. Laddie this point. Suppose that Mr. Thorne had been asked by the assistant, in response to his question about guarantees, whether he was Sony's lawyer. Would it have made any difference, I asked, if in response to that question Mr. Thorne had said that he was not Sony's lawyer? That is to say, if he had converted the passive and unexpressed representation which was implicit in the question which he asked as an apparently bona fide customer to an express misrepresentation. Mr. Laddie accepted (as I think he was bound to) that it could not make any difference if the solicitor executing a trap order makes an express misrepresentation--that is to say, if he does no more than make express that which would be implied from the circumstances.

If that is the law, then it is clear that criticism cannot be levelled at the plaintiffs for the way in which the meeting of 14 July was arranged and conducted. If it is the law that a plaintiff is entitled to misrepresent himself as a bona fide customer in the course of executing a trap order then his solicitor must be entitled, first, to advise him that that is so and, secondly, to set up the arrangements which enable the trap order, to be executed effectively. It is but a short step from that for the solicitor to be present at the execution of the trap order, if only to ensure that a proper record is made of what occurs. If it be thought undesirable for solicitors to take part in what on any basis, is exercise in deception then that seems to me to be a matter for their professional body, rather than for this court on this motion.

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[1993] F.S.R. 692

Norwich Pharmacal Co. and Others Appellants
v. Customs and Excise
Commissioners Respondents

House of Lords

HL

Lord Reid, Lord Morris of Borth-Y-Gest,
Viscount Dilhorne, Lord Cross of
Chelsea and Lord Kilbrandon

1973 Feb. 26, 27, 28; March 1, 5, 6, 7, 12, 13,
14, 15, 19, 20, 21; June 26

LORD REID.

My Lords, the appellants own patent no. 735,136 which covers a chemical compound called furazolidone. The validity of the patent is not in dispute. This substance is widely used and matter published by the respondents shows that some 30 consignments of it were imported into the United Kingdom between 1960 and 1970. None of these were licensed by the appellants. Each of these consignments therefore involved a tortious infringement of their right. The appellants have tried, but with little success, to discover the identity of the importers.

When any goods are imported the master of the ship bringing them and the importer have to lodge documents with the Customs which disclose the identity of the importer. It is not disputed that the respondents have in their possession documents showing who imported each of these consignments and the appellants now seek to get from the respondents by way of discovery the names of those who are shown in their records to have imported furazolidone during the last six years in order that the appellants may be able to take proceedings against such importers. The respondents for a number of reasons say that they are not entitled or are not willing to give this information and they assert that the appellants have no right to obtain discovery.

On June 29, 1967, the appellants wrote a long letter to the respondents setting out their contentions and seeking information in respect of the persons responsible for the importation of this substance. On July 25, the respondents replied that they had no authority to give such

information. The appellants then issued a writ. They alleged infringement by the respondents and sought wider discovery than they now seek. But they now admit that they have no cause of action against the respondents.

The question therefore now is whether the respondents are in law liable to make discovery of the names of the wrongdoers who imported the patented substance. Graham J. held that they were but his decision was reversed by the Court of Appeal.

Discovery as a remedy in equity has a very long history. The chief occasion for its being ordered was to assist a party in an existing litigation. But this was extended at an early date to assist a person who contemplated litigation against the person from whom discovery was sought, if for various reasons it was just and necessary that he should have discovery at that stage. Such discovery might disclose the identity of others who might be joined as defendants with the person from whom discovery was sought. Indeed in some cases it would seem that the main object in seeking discovery was to find the identity of possible other defendants. It is not clear to me whether in all these cases the plaintiff had to undertake in some way to proceed against the person from whom he sought discovery if he found on discovery being ordered that it would suit him better to drop his complaint against that person and concentrate on his cause of action against those whose identity was disclosed by the discovery. But I would think that he was entitled to do this if he chose.

But it is argued for the respondents that it was an indispensable condition for the ordering of discovery that the person seeking discovery should have a cause of action against the person from whom it was sought. Otherwise it was said the case would come within the "mere witness" rule.

I think that there has been a good deal of misunderstanding about this rule. It has been clear at least since the time of Lord Hardwicke that information cannot be obtained by discovery from a person who will in due course be compellable to give that information either by oral testimony as a witness or on a subpoena duces tecum. Whether the reasons justifying that rule are good or bad it is much too late to inquire: the rule is settled. But the foundation of the rule is the assumption that eventually the testimony will be available either in an action

already in progress or in an action which will be brought later. It appears to me to have no application to a case like the present case. Here if the information in the possession of the respondents cannot be made available by discovery now, no action can ever be begun because the appellants do not know who are the wrongdoers who have infringed their patent. So the appellants can never get the information.

To apply the mere witness rule to a case like this would be to divorce it entirely from its proper sphere. Its purpose is not to prevent but to postpone the recovery of the information sought. It may sometimes have been misapplied in the past but I see no reason why we should continue to do so.

But that does not mean, as the appellants contend, that discovery will be ordered against anyone who can give information as to the identity of a wrongdoer. There is absolutely no authority for that. A person injured in a road accident might know that a bystander had taken the number of the car which ran him down and have no other means of tracing the driver. Or a person might know that a particular person is in possession of a libellous letter which he has good reason to believe defames him but the author of which he cannot discover. I am satisfied that it would not be proper in either case to order discovery in order that the person who has suffered damage might be able to find and sue the wrongdoer. Neither authority, principle nor public policy would justify that.

So discovery to find the identity of a wrongdoer is available against anyone against whom the plaintiff has a cause of action in relation to the same wrong. It is not available against a person who has no other connection with the wrong than that he was a spectator or has some document relating to it in his possession. But the respondents are in an intermediate position, Their conduct was entirely innocent; it was in execution of their statutory duty. But without certain action on their part the infringements could never have been committed. Does this involvement in the matter make a difference?

On the view which I take of the case I need not set out in detail the powers and duties of the respondents with regard to imported goods. From the moment when they enter the port until the time when the consignee obtains clearance and removes the goods, they are under the control of the Customs in the sense that the Customs authorities can prevent their movement

or specify the places where they are to be put, and in the event of their having any suspicions they have full powers to examine or test the goods. When they are satisfied and the appropriate duty has been paid the consignee or his agent is authorised to remove the goods. No doubt the respondents are never in possession of the goods, but they do have considerable control of them during the period from entry into the port until removal by the consignee. and the goods cannot get into the hands of the consignee until the respondents have taken a number of steps and have released them.

My noble and learned friends, Lord Cross of Chelsea and Lord Kilbrandon, have dealt with the authorities. They are not very satisfactory, not always easy to reconcile and in the end inconclusive. On the whole I think they favour the appellants, and I am particularly impressed by the views expressed by Lord Romilly M.R. and Lord Hatherley L.C. in *Upmann v. Elkan* (1871) L.R. 12 Eq. 140; 7 Ch.App. 130. They seem to me to point to a very reasonable principle that if through no fault of his own a person gets mixed up in the tortious acts of others so as to facilitate their wrong-doing he may incur no personal liability but he comes under a duty to assist the person who has been wronged by giving him full information and disclosing the identity of the wrongdoers. I do not think that it matters whether he became so mixed up by voluntary action on his part or because it was his duty to do what he did. It may be that if this causes him expense the person seeking the information ought to reimburse him. But justice requires that he should co-operate in righting the wrong if he unwittingly facilitated its perpetration.

I am the more inclined to reach this result because it is clear that if the person mixed up in the affair has to any extent incurred any liability to the person wronged, he must make full disclosure even though the person wronged has no intention of proceeding against him. It would I think be quite illogical to make his obligation to disclose the identity of the real offenders depend on whether or not he has himself incurred some minor liability. I would therefore hold that the respondents must disclose the information now sought unless there is some consideration of public policy which prevents that.

Apart from public policy the respondents say that they are prevented by law from making this disclosure. I agree with your Lordships that that is not so. If it were they could not even disclose

such information in a serious criminal case, but their counsel were, quite rightly, not prepared to press their argument so far as that.

So we have to weigh the requirements of justice to the appellants against the considerations put forward by the respondents as justifying non-disclosure. They are twofold. First it is said that to make such disclosures would or might impair or hamper the efficient conduct of their important statutory duties. and secondly it is said that such disclosure would or might be prejudicial to those whose identity would be disclosed.

There is nothing secret or confidential in the information sought or in the documents which came into the hands of the respondents containing that information. Those documents are ordinary commercial documents which pass through many different hands. But it is said that those who do not wish to have their names disclosed might concoct false documents and thereby hamper the work of the Customs. That would require at least a conspiracy between the foreign consignor and the importer and it seems to me to be in the highest degree improbable. It appears that there are already arrangements in operation by the respondents restricting the disclosure of certain matters if the importers do not wish them to be disclosed. It may be that the knowledge that a court might order discovery in certain cases would cause somewhat greater use to be made of these arrangements. But it was not suggested in argument that that is a matter of any vital importance. The only other point was that such disclosure might cause resentment and impair good relations with other traders: but I find it impossible to believe that honest traders would resent failure to protect wrongdoers.

Protection of traders from having their names disclosed is a more difficult matter. If we could be sure that those whose names are sought are all tortfeasors, they do not deserve any protection. In the present case the possibility that any are not is so remote that I think it can be neglected. The only possible way in which any of these imports could be legitimate and not an infringement would seem to be that someone might have exported some furazolidone from this country and then whoever owned it abroad might have sent it back here. Then there would be no infringement. But again that seems most unlikely.

But there may be other cases where there is

much more doubt. The validity of the patent may be doubtful and there could well be other doubts. If the respondents have any doubts in any future case about the propriety of making disclosures they are well entitled to require the matter to be submitted to the court at the expense of the person seeking the disclosure. The court will then only order discovery if satisfied that there is no substantial chance of injustice being done.

I would therefore allow this appeal. The respondents were quite right in requiring the matter to be submitted to the court. So they are entitled to their costs down to the date of the judgment of Graham J. Thereafter the appellants caused much extra expense by putting their case much too high. In the circumstances I would award no costs in the Court of Appeal or in this House.

LORD MORRIS OF BORTH-Y-GEST.

[opinion omitted]

VISCOUNT DILHORNE.

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[I] want to make it clear that in my opinion Customs and Excise have acted perfectly properly throughout these proceedings. Applications for discovery by persons who are not sued and who have done no wrong were a rare occurrence in the last century and are even rarer in this. Customs are right to be solicitous for the interests of those who give them information. They were right initially to refuse the appellants' request. Indeed I think that it may well be that in cases which are not absolutely on all fours with this, they would be right in future to refuse disclosure except on the order of the court.

And the question is, should the court now order it? If a degree of confidentiality does attach to the names and addresses of the importers, I think that on the balance of national interest the interests of justice in this case far outweigh any interest there may be in non-disclosure.

The appellants now only seek discovery of the names and addresses of the consignees of the imported furazolidone in the last six years and, in my opinion, that discovery should be ordered in the form which has been agreed between the

parties.

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LORD CROSS OF CHELSEA.

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In the course of the argument fears were expressed that to order disclosure of names in circumstances such as exist in this case might be the "thin end of the wedge," that we might be opening the door to "fishing requests" by would-be plaintiffs who want to collect evidence or the requests for names made to persons who had no relevant connection with the person to be sued or with the events giving rise to the alleged cause of action but just happened to know the name. I think that these fears are groundless. In the first place, there is a clear distinction between simply asking for the name of a person whom you wish to make a defendant and asking for evidence. This case has nothing to do with the collection of evidence. Secondly, although in any case which was on all fours with this case or any subsequent case which may be decided the commissioners or any other person who was asked for a name would no doubt give it without putting the applicant to the expense of obtaining an order of the court; in any case in which there was the least doubt as to whether disclosure should be made the person to whom the request

was made would be fully justified in saying that he would only make it under an order of the court. Then the court would have to decide whether in all the circumstances it was right to make an order. In so deciding it would no doubt consider such matters as the strength of the applicant's case against the unknown alleged wrongdoer, the relation subsisting between the alleged wrongdoer and the respondent, whether the information could be obtained from another source, and whether the giving of the information would put the respondent to trouble which could not be compensated by the payment of all expenses by the applicant. The full costs of the respondent of the application and any expense incurred in providing the information would have to be borne by the applicant.

LORD KILBRANDON.

[opinion omitted]

Appeal allowed. (J. A. G.)

[1974] A.C. 133

Bank Mellat v. Nikpour

In the Court of Appeal

CA

Before: The Master of the Rolls (Lord Denning), Lord Justice Donaldson and Lord Justice Slade

20 and 21 April 1982

The Master of the Rolls:

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I would like to repeat what has been said on many occasions. When an ex parte application is made for a Mareva injunction, it is of the first importance that the plaintiff should make full and frank disclosure of all material facts. He ought to state the nature of the case and his cause of action. Equally, in fairness to the defendant, the plaintiff ought to disclose, so far as he is able, any defence which the defendant has indicated in correspondence or elsewhere. It is only if such information is put fairly before the court that a Mareva injunction can properly be granted. We stated the guidelines in *Third Chandris Shipping Corporation v. Unimarine S.A.* [1979] 1 Q.B. 645 at 668:

"The plaintiff should make full and frank disclosure of all matters in his knowledge which are material for the judge to know."

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I find myself in substance in agreement with the decision of the judge. I would dismiss the appeal.

Donaldson J.:

I too would dismiss the appeal. The learned judge would have rescinded the injunction in this case; he only continued it pending the appeal. His grounds for doing so were that there had not been full and frank disclosure by the plaintiffs. He went on to refuse to consider granting a new injunction in aid of what was in fact the third alleged cause of action put forward by the plaintiffs.

This principle that no injunction obtained ex

parte shall stand if it has been obtained in circumstances in which there was a breach of the duty to make the fullest and frankest disclosure is of great antiquity. Indeed, it is so well enshrined in the law that it is difficult to find authority for the proposition; we all know it; it is trite law. But happily we have been referred to a dictum of Warrington L.J. in *R. v. Kensington Income Tax Commissioners, Ex parte Princess Edmond de Polignac* [1917] 1 K.B. 486 at 509. He said:

"It is perfectly well settled that a person who makes an ex parte application to the court--that is to say, in the absence of the person who will be affected by that which the court is asked to do--is under an obligation to the court to make the fullest possible disclosure of all material facts within his knowledge, and if he does not make that fullest possible disclosure, then he cannot obtain any advantage from the proceedings, and he will be deprived of any advantage he may have already obtained by means of the order which has thus wrongly been obtained by him. That is perfectly plain and requires no authority to justify it."

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The rule requiring full disclosure seems to me to be one of the most fundamental importance, particularly in the context of the draconian remedy of the Mareva injunction. It is in effect, together with the Anton Piller order, one of the law's two "nuclear" weapons. If access to such a weapon is obtained without the fullest and frankest disclosure, I have no doubt at all that it should be revoked.

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Slade L.J.:

[opinion omitted]

Appeal dismissed with costs including the costs of adducing further evidence.

[1985] F.S.R. 87

In the Chappell case

The European Court of Human Rights

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Having deliberated in private on 24 November 1988 and
24 February 1989,

Delivers the following judgment, which was adopted on the
last-mentioned date:

PROCEDURE

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AS TO THE FACTS

I. INTRODUCTION

8. Mr Chappell, who was born in 1948, lives at Frome, Somerset.

In late 1980 and until the end of April 1981, he operated - through Video Exchange Limited, a company which he controlled - a club for the exchange of video cassettes, under the name of the Video Exchange Club. The company recorded cassettes which were subsequently made available to subscribers to the club, of whom there were some 4,000. A substantial number of the recordings distributed through the club had been made in breach of copyright, although the applicant contended that he had received counsel's advice to the effect that the club's exchange activities were within the law.

9. The applicant's business came to the notice of two film companies and two organisations formed to protect film producers and film distributors, respectively, from activities carried out in breach of copyright ("the Plaintiffs"). The investigator employed by the Plaintiffs, a former policeman, discovered and reported to them that their copyright was, in his view, being breached by the applicant and his company ("the Defendants").

Accordingly, on 26 February 1981, the Plaintiffs, as a preliminary step in an action against the Defendants, applied to the High Court for interim relief in the form of an order known as an "Anton Piller order" (see paragraphs 10-24 below). Their application was supported by two affidavits, one sworn by the investigator and the other by W., a solicitor. The order was made on the same day by

Mr Justice Whitford. The Defendants were not present in court: in accordance with the practice in such cases (see paragraph 11 below), no notice was given to them of either the application or its outcome.

II. ANTON PILLER ORDERS IN GENERAL

A. Nature and contents

10. Under section 45 of the Supreme Court of Judicature (Consolidation) Act 1925 - now section 37 of the Supreme Court Act 1981 -, the English High Court had and has a general power to grant an injunction by interlocutory order in all cases in which it appears to be just or convenient so to do. Order 29, rule 2, of the Rules of the Supreme Court specifically empowers it to make orders "for the detention, custody or preservation of any property which is the subject-matter of the cause or matter".

In this context, the High Court developed - in particular from 1974 onwards - the practice of granting in appropriate cases to the plaintiff or intending plaintiff in civil proceedings "Anton Piller orders", so called after the name of a case in which their use was approved by the Court of Appeal (*Anton Piller KG v. Manufacturing Processes Ltd* [1976] 1 All England Law Reports 779). They are of a procedural and essentially provisional nature only, being granted pending the trial of the action on the merits.

11. One of the basic purposes of this interlocutory measure being to preserve for that trial evidence in the possession of the defendant or prospective defendant, its essence is surprise. For this reason, the court - by virtue, so it was held in the Anton Piller case, of a power deriving from its inherent jurisdiction - grants the order on an *ex parte* application, that is without the defendant's being given notice and without his being heard. For the same reason, the application is invariably heard in private and the defendant will become aware of the order's existence only when it is served on him with a view to immediate execution.

Over the years, the principles governing the grant and the terms of these orders have been restated and refined in numerous judgments.

12. An Anton Piller order will normally contain restrictive or mandatory injunctions:

(a) prohibiting the defendant from dealing with materials that are the subject of the action (for example, "pirate" - that is, unlicensed or unauthorised - video tapes);

(b) requiring the defendant to disclose to the person serving the order the whereabouts of all such materials and details of suppliers and customers, and to deliver up the materials to the plaintiff;

(c) requiring the defendant to make within a specified time-limit an affidavit containing all the information to be disclosed by him under the order;

(d) requiring the defendant to permit the plaintiff to enter specified premises for the purpose of searching for and removing specified items.

As regards this last injunction, the court will confine the items specified to documents and materials directly relating to the action. It will also restrict the time of entry (commonly from 9 a.m. to 6 p.m. on weekdays) and the number of persons who are to be permitted to enter (very rarely more than four or five). The latter will include the plaintiff's solicitor, who is an officer of the court (see paragraph 17 in fine below).

13. Whilst Anton Piller orders have been made in a wide variety of cases, the great majority are granted in proceedings involving allegations of infringement of patents, trade marks or copyright or of passing off. Of these, by far the most frequent have been cases involving pirate records, tapes and video cassettes, where the risks of suppression of evidence are especially strong. It appears that some 500 such orders were made each year between 1975 and 1980, but the current figure has dropped to between 50 and 100. This reduction reflects the decrease in the incidence of video piracy, which in the late 1970's and early 1980's had attained epidemic proportions.

B. Procedure, conditions and terms

14. An Anton Piller order is usually applied for at the very outset of proceedings, at the same time as the writ commencing them is proposed to be issued.

The plaintiff or intending plaintiff will submit to the court a draft of the order sought, accompanied by supporting evidence in the form of affidavits (or drafts to be sworn subsequently). The evidence, which is often provided by a professional investigator, will outline the plaintiff's business and how it is alleged to be prejudiced by the defendant's activities. There will be a description of those activities, very often including a record of a visit to the defendant's premises and the purchase and presence there of, for example, pirate video cassettes.

15. The plaintiff must, however, state at the beginning what his charges are and what facts they are based on; he must not use an Anton Piller order as a means of finding out what sort of charges he can make (per Lord Justice Lawton in *Hytrac Conveyors Ltd v. Conveyors International Ltd* [1982] 3 All England Law Reports 415).

Furthermore, he is under a duty to disclose all material facts when applying for the order. Failure to comply, even innocently, with this obligation will, unless the court in its discretion otherwise decides, lead to a refusal or discharge of the order, even though there may be facts justifying its grant.

16. Before making an Anton Piller order, the court must be satisfied that:

(a) the plaintiff has made out an extremely strong prima facie case that his claim will succeed on the merits;

(b) the actual or potential damage is very serious for him; and

(c) there is clear evidence that the defendant has in his possession incriminating documents or things, and that there is a real possibility that, if he is forewarned, he may destroy such material.

17. If so satisfied, the court will nevertheless accede to the application only on terms which will be incorporated in its written order, in the form of undertakings given to the court. These are designed to protect the position of the absent defendant, counsel for the plaintiff being under a duty to ensure that the order contains all proper safeguards for this purpose. The court determines in its discretion what undertakings are to be given, there being no invariable rules or practice in this respect. Examples are the following, item (a) being found in all, and items (b), (c) (i) and (c) (ii) in most cases:

(a) an undertaking by the plaintiff to pay to the defendant any damages sustained by him as a result of the making of the order;

(b) an undertaking by the plaintiff that the order and other relevant documents, such as the affidavit evidence underlying it, the writ instituting the proceedings and the notice of the next hearing, will be served on the defendant by the plaintiff's solicitors;

(c) undertakings by those solicitors:

(i) to offer to explain to the person served, fairly and in everyday language, the meaning and effect of the order, and to inform him that

he has the right to obtain legal advice before complying with the order or parts thereof, provided such advice is obtained forthwith;

(ii) to retain in their custody any items taken by or delivered to them pursuant to the order;

(iii) to answer any question from the defendant as to whether an item is within the scope of the order;

(iv) to prepare, before their removal from the premises, a list of the items taken;

(v) to use any information or document obtained under the order only in connection with the civil proceedings in question;

(vi) to ensure that the exercise of rights under the order remains at all times under the control of a solicitor.

The significance of the intervention of a solicitor in this procedure and in the undertakings given is that solicitors are officers of the Supreme Court and, as such, subject to its inherent jurisdiction in disciplinary matters. A failure by a solicitor to comply fully with an undertaking given by him personally to the court in his professional capacity will render him liable to summary proceedings for contempt of court with a potential sanction of imprisonment, a fine or an order to pay compensation or costs. It will also constitute professional misconduct, punishable in professional disciplinary proceedings by striking off the roll, suspension from practice or a financial penalty.

C. Execution

18. In addition to the fact that it is issued to a private party in civil proceedings, and not to the police in criminal proceedings, an Anton Piller order is to be distinguished from a search warrant in that it confers no right of forcible entry onto premises. Its terms require the defendant to permit the plaintiff to enter, but it remains open to the defendant to refuse and, if he so wishes, to apply by urgent motion for variation or discharge of the order (see paragraph 20 below). He is, however, under pressure to give permission, especially since refusal to comply will expose him to the risk of proceedings for contempt of court on the motion of the plaintiff, with a possible penalty of imprisonment. Moreover, even if the defendant later succeeds in having the order discharged, his disobedience whilst it was in force will - unless it was made in circumstances in which it was a nullity in law - still constitute a contempt, albeit one which will probably be treated as technical and

will usually attract no penalty (per Lord Justice Buckley in *Hallmark Cards Inc. v. Image Arts Ltd* [1977] *Fleet Street Reports* 153).

19. It is common practice - and this has received judicial approval - to arrange for a policeman to be present, outside the premises, when an Anton Piller order is being executed, with a view to forestalling any breach of the peace.

D. Remedies for the defendant

20. An Anton Piller order will expressly reserve to the defendant liberty to apply by urgent motion for its variation or discharge on giving specified notice to the plaintiff (usually 24 hours but sometimes less). Being an essentially provisional measure, it will in any event limit the duration of the relief which it affords to a specified period, generally about one week. On the expiry of that period, there will in principle be a hearing *inter partes* at which the court will review the order and consider whether the relief should be continued. On that occasion, or at any time subsequently, the defendant may apply for the order to be varied or discharged. Whilst the court may set aside the order even after its execution, it will not do so unless discharge was applied for reasonably soon thereafter and will serve some practical purpose (*Booker McConnell plc v. Plascow* [1985] *Reports of Patent Cases* 425).

An Anton Piller order can be set aside if there existed no, or no sufficient, grounds for its making, if the plaintiff failed to disclose material facts when applying for it or, it seems, if it was improperly or oppressively executed.

If the order is set aside, the defendant will be relieved from complying with the injunctions contained therein and any materials seized thereunder will be returned to him. Partial relief of a similar nature may also be granted by the court even if the application for discharge is unsuccessful (see paragraphs 44-45 below).

21. In addition or as an alternative to applying for the order's discharge, the defendant may seek damages under the plaintiff's cross-undertaking (see paragraph 17 (a) above) on the ground that the order was improperly obtained or executed. Damages may be awarded even if the order is not set aside and even if the plaintiff's action succeeds on the merits (*Columbia Picture Industries Inc. v. Robinson* [1986] 3 All England Law Reports 338). Whilst they may be determined earlier, claims for damages are usually stood over until the trial on the merits (*Dormeuil Frères SA v. Nicolian International (Textiles) Ltd* [1988] 3 All England Law Reports 197). Damages are primarily

intended to compensate the defendant for loss occasioned by the order but they may be aggravated if it was executed in an excessive or improper manner (see the Columbia Picture Industries case).

22. If the defendant considers that the plaintiff or his solicitors are in breach of their undertakings contained in the Anton Piller order or that the latter have acted improperly in executing it, he can proceed against them for contempt of court (see paragraph 17 in fine above).

23. The defendant can also claim damages for trespass if, for example, entry to his premises was obtained by a trick or without real consent, or materials were removed without justification under the order.

24. In the Columbia Picture Industries case, Mr Justice Scott reviewed extensively the law and practice relating to Anton Piller orders. He considered that the availability of damages did not meet the main objection to the procedure, namely that it produced for the defendant, without his being heard, damaging and irreversible consequences, often in the form of the closure of his business.

Furthermore, whilst it was proper to make Anton Piller orders in suitable cases, they had, in his opinion, been too readily granted and with insufficient safeguards for defendants, the balance that had to be struck between the rights at issue having swung much too far in favour of plaintiffs. He was of the view that the draconian and essentially unfair nature of an Anton Piller order from the defendant's point of view required that it be restricted to the minimum extent necessary to achieve its purpose and he gave several examples of steps to be taken to meet this standard.

III. THE ANTON PILLER ORDER MADE IN THE PRESENT CASE

A. Contents

25. The interlocutory relief obtained by the Plaintiffs on 26 February 1981 in the shape of the Anton Piller order was granted until 5 March 1981 or until further order. The Defendants were given liberty to apply to the court for variation or discharge of the order on giving 24 hours' notice to the Plaintiffs.

26. The order contained, inter alia, the following.

(a) An injunction prohibiting the Defendants from making, selling, hiring, distributing or parting with possession of any unlicensed copies of any films the copyright in which was owned by the

Plaintiffs, and from parting with possession of any documents relating to the supply of such copies to or by the Defendants.

(b) An injunction requiring the Defendants to permit not more than three persons authorised by the Plaintiffs, together with a solicitor and one other solicitor or employee of the Plaintiffs' solicitors, to enter forthwith specified premises on any weekday between 8 a.m. and 9 p.m. for the purpose of searching for and removing into the custody of the Plaintiffs' solicitors any unlicensed copies of the said films and any documents appearing to relate to the acquisition, supply or disposal of such copies. The premises identified in the order were those under the control of Mr Chappell and his company; they were in fact where he carried on business but - apparently unbeknownst to the Plaintiffs - they were also occupied by him in part as his home (see paragraph 36 below) and constituted at the time his only residence.

(c) An injunction requiring the Defendants to reveal to the Plaintiffs' solicitors the whereabouts of, and to deliver to them, all the aforesaid copies and documents in the Defendants' possession.

(d) Injunctions requiring the Defendants to disclose to the Plaintiffs' solicitors the names and addresses of the Defendants' suppliers of and customers for unlicensed copies of the said films; and to swear, within four days after service of the order, an affidavit setting forth this information ("the affidavit of disclosure").

27. The order also contained undertakings by the Plaintiffs or their solicitors in terms akin to those mentioned in paragraph 17 above, other than items (c) (iii), (c) (iv) and (c) (vi), together with an undertaking not to commence or instigate criminal proceedings against any of the Defendants in respect of the acts forming the subject-matter of the action. The undertaking to inform the Defendants of their right to obtain legal advice related, however, solely to the requirement to disclose particulars of their suppliers and customers (see paragraph 26 (d) above but cf. paragraph 38 below).

B. Execution

1. Arrangements with the police

28. The Anton Piller order was executed on 2 March 1981, simultaneously with a police search warrant. The circumstances that led to this special feature of the present case are set out below.

29. On 16 February 1981 the Plaintiffs' investigator, posing as a

customer, had visited Mr Chappell's business premises in order to collect pirate video cassettes of three films, the copyright in which was allegedly owned by the Plaintiffs. He was also shown an extract from another cassette which he considered obscene; in his affidavit in support of the application for the Anton Piller order, he stated that he was asked if he was interested in cassettes of this kind but "did not pursue this as such material is not of interest to my [employers]".

In fact, the investigator went immediately to the Bath police and informed them about the material he regarded as obscene. He saw Detective Chief Inspector A, to whom he sent a written statement on 17 February. On the same day he told the Plaintiffs' solicitors - who had been instructed following his report to obtain an Anton Piller order - that the police were "interested in the porno material" he had seen and that he would "make arrangements with the police in Bath".

30. On 24 February 1981 the investigator telephoned Detective Chief Inspector A at the request of the Plaintiffs' solicitors to inform him that an Anton Piller order was to be applied for on 26 February, the intention being to serve and execute it on 2 March. He arranged with A that, if the order was obtained, there would be a meeting between those who were to execute it and the police at Bath police station at 10.45 a.m. on 2 March. The reason for this arrangement was that the police planned to execute, in connection with possible proceedings under the Obscene Publications Act 1959 and at the same or about the same time as the order, a warrant to search the Defendants' premises for and seize any pornographic video films.

31. During the course of the application for the order on 26 February 1981, the following exchange took place between counsel for the Plaintiffs and Mr Justice Whitford:

"(Counsel): My Lord, there is one other matter which I ought to draw to your Lordship's attention and that is that the local police force are very much interested in these defendants in relation to matters which are not the subject of this action, namely, the adult films.

(The judge): Yes. Well, that is a different matter altogether.

(Counsel): My Lord, it is a different matter, but I felt I ought to draw your Lordship's attention to the fact that they propose a visitation upon [the applicant] and his company at about the same time as we propose to serve this order upon them.

(The judge): Yes, but they are not interested in ...

(Counsel): No.

(The judge): ... these films.

(Counsel): They are just interested in the obscenity.

(The judge): It's only the self-incrimination.

(Counsel): My Lord, that's right.

(The judge): So far as that is concerned there is no indication that the police are ...

(Counsel): None whatever.

(The judge): As to that you gave the undertaking."

32. A letter of 27 August 1981 from the Plaintiffs' solicitors to Mr Chappell - which was put in evidence by the Plaintiffs in another connection - contained the following passage concerning the arrangements with the police:

"We would like to deal ... with the point about the simultaneous execution of the police search warrant with the [Anton Piller order] ... [We] would like to make our position plain ... On 17 February [we] first received instructions to obtain an [order]. It is quite clear from our attendance note of the conversation that [the investigator] also told [H.] that the police were interested in you and [the applicant's company] in relation to pornographic material. It was also clearly assumed that should the police wish to take action then a joint execution of the search warrant and the [order] would be the ideal arrangement. Obviously anything other than a simultaneous execution might well prove to be to little or no effect. Of course no one could be certain at that time that such simultaneous execution would take place since it depended, inter alia, on a judge granting a full Anton Piller order and the police obtaining a search warrant quite apart from any other practical difficulties. That was the position when the application before the application judge was made on [26] February [1981]. Let us be quite clear, we do not in any way deny that it was the intention that the [order], if granted, would be served and executed at the same time as the search warrant, assuming that [that] was granted to the police and that the other arrangements could be made. We repeat that such is obvious. We also think reference to the transcript [of the hearing concerning the application for the order] makes it quite clear that the application judge was informed of the police interest and the likelihood or possibility of a search warrant being executed."

33. As soon as the Anton Piller order was made on 26 February 1981, the Plaintiffs' solicitors informed the Bath police, who had obtained a search warrant on the same day. The previous arrangements were confirmed.

2. The events of 2 March 1981

34. At 10.45 a.m. on 2 March 1981 the Plaintiffs' party (H., another solicitor and three employees of the Plaintiffs, including the investigator) met the police at Bath police station. They then went, together with the police party responsible for executing the search warrant (eleven or twelve policemen in plain clothes, led by A), to the Defendants' premises.

35. On arrival, the investigator went in first, again posing as a customer, his stated object being to be able to "observe what happened right from the start".

A few minutes later, A, who was accompanied by some of the Plaintiffs' party including H. but by no policemen, rang the doorbell. The lady who opened the door initially refused entry but, after being shown the search warrant, she reluctantly admitted the group (see also paragraph 43 (d) below).

36. The premises were on four floors. The ground-floor entrance gave access to a passage and stairs leading to the other floors. On the first of those were Mr Chappell's office and a general office; on the second, his bedroom, a room used for processing video cassettes and the office of an employee of his company; and on the third, three further offices.

37. Detective Chief Inspector A and those accompanying him found Mr Chappell in his office, where he was served with the search warrant. The other ten or eleven policemen entered the building at 11.40 a.m. Having been assigned to various rooms or tasks, they began their search; it was concluded at 4.20 p.m., after 274 items (mostly video tapes) had been logged and signed for.

38. As soon as the warrant had been served and whilst the police were beginning their search, H. served the Anton Piller order on Mr Chappell and informed him of its effect. Furthermore, in accordance with the general obligation incumbent on solicitors in such cases, he went further than his express undertaking (see paragraph 27 above), in that he urged Mr Chappell to obtain legal advice on the order in its entirety. The latter asked for a member of his usual firm of solicitors to attend, but the only person available was a trainee solicitor. On his arrival shortly afterwards, Mr Chappell, who was

distracted by the police search, was advised of the implications of the order and accepted service of it; service was accepted on behalf of his company by the trainee solicitor.

Thereupon - but not before - the Plaintiffs' party started their search of the premises, which was conducted simultaneously with the police search and concluded at about the same time. They seized, inter alia, 377 video cassettes as pirate copies; some of these, in which the copyright was not owned by the Plaintiffs, were subsequently returned to Mr Chappell.

39. The applicant maintained that, owing to the simultaneous searches, he was unable to supervise the operations and take note of the material seized. In particular, he stated that the Plaintiffs' solicitors took a number of private, confidential and personal documents, having no bearing on the action for breach of copyright. The Government submitted that, not being a party to the search, they could not comment on or dispute these contentions.

A note on the solicitors' file records that H. went through the drawers of correspondence and other documents and "encountered some protest" from Mr Chappell "who attempted to separate material which was not relevant", but that "all necessary material was finally removed". No itemised list of the seized material was prepared, neither was this required under the order (see paragraph 27 above), but the applicant did take copies of some of it. The Commission found it "clear" that personal correspondence had been examined and, in certain cases, taken by the solicitors.

40. The aforesaid and another note made by the Plaintiffs' solicitors reveal that they returned after the search to the police station and, in Mr Chappell's absence, went through the documentation seized by the police and copied or borrowed certain relevant items.

IV. SUBSEQUENT COURT PROCEEDINGS

A. High Court

41. The matter of the Anton Piller order came before the High Court (Mr Justice Dillon) on 5 March 1981 for a hearing inter partes (see paragraph 20 above). The applicant did not then seek the discharge of the order on the ground that it had been improperly obtained, although he did apparently ask for the return of the seized cassettes.

As regards the affidavit of disclosure which was due to be filed by the Defendants by 6 March 1981 (see paragraph 26 (d) above),

Mr Justice Dillon, by order of 9 March, extended the time-limit to 14 March: at the hearing the Defendants had given various undertakings to the court, including one to disclose the same information as that originally stipulated under the Anton Piller order and to make the corresponding affidavit. The time-limit was subsequently extended, by agreement between the parties, to 27 March. However, the applicant, who had changed solicitors twice and visited the Plaintiffs' solicitors' office several times to examine the seized materials, continued to refuse to file the affidavit; he objected, in particular, to giving details of the members of the Video Exchange Club.

42. On 6 May 1981 the Plaintiffs served on the Defendants a notice of motion for contempt of court for failure to comply with the disclosure undertaking given to Mr Justice Dillon; in it they sought Mr Chappell's committal to prison.

On 26 May the applicant withdrew his instructions from his professional advisers and thereafter conducted his case in person. He then issued a variety of cross-motions against the Plaintiffs. In one of these, dated 21 July, he requested that the Anton Piller order be set aside; that the Defendants be released from their undertakings; that the seized materials be returned to them; that the Plaintiffs' action be dismissed; and that he be awarded damages. His principal ground for claiming this relief was that the order had been improperly obtained, served and executed - notably on account of the combined searches by the Plaintiffs and the police and the failure to inform Mr Justice Whitford of the plans in this connection - with the result, he submitted, that the order and the evidence obtained thereunder were invalid.

Another cross-motion by Mr Chappell related to alleged contempt of court by the Plaintiffs and their investigator, notably for failure to comply with undertakings incorporated in the order.

43. On 10 November 1981, after hearing substantial argument and several witnesses (including the applicant and others who had been present at the search), Mr Justice Warner gave judgment in the High Court on the Plaintiffs' and Mr Chappell's motions. He addressed, inter alia, the following matters.

(a) After describing an Anton Piller order as being of a "draconian nature", he quoted in this connection the following dictum of Mr Justice Browne-Wilkinson in the High Court:

"... [T]he rule of full disclosure to the court is almost more important in Anton Piller cases than in other ex parte applications.

Since Anton Piller orders give compulsory rights of inspection, once those inspections have taken place the information procured from [them] is in the hands of the other side and the situation is irreversible."

(b) He noted that although the investigator's affidavit in support of the application for the order contained sufficient evidence to warrant the latter's making, it included two inaccuracies which were neither trivial nor immaterial, one being the omission of a clear explanation of his contact with the police on 16 February 1981 (see paragraphs 9 and 29 above).

(c) He recited the exchange between counsel and Mr Justice Whitford on 26 February 1981, but described the Plaintiffs' actual intentions in respect of their proposed co-operation with the police as being "more accurately described" in their solicitors' letter of 27 August 1981 (see paragraphs 31-32 above).

(d) Whilst finding that the lady who gave admission to the premises (see paragraph 35 above) "obviously took it that H. and the others were police officers", he was of the view that the Anton Piller order had been validly served.

(e) He examined various complaints concerning the execution of the order and noted that Mr Chappell "was able to look after his interests as well as anyone in his position would have been". He nevertheless adverted to the difficulties created for a defendant by the simultaneous execution of a search warrant and an Anton Piller order, as regards supervision of the searching and taking advice from and giving instructions to his solicitor. To protect the defendant, he suggested, the warrant and the order should be served at the same time but the two searches should be conducted consecutively.

(f) He was satisfied that various allegations of improper behaviour on the part of the Plaintiffs and their solicitors, relating to matters other than the obtaining, service and execution of the order, were unfounded.

(g) He arrived at the following conclusions:

"... [T]here was nothing inherently wrong with the mode of execution of the Anton Piller order, except that the presence of the police executing their search warrant at the same time made it more oppressive than it should have been ... [T]he real vice lies in the fact that Mr Justice Whitford was not told with all the candour that was called for in the circumstances what the intentions of the plaintiffs and the police were. He ought ... at least to have been

told that it was intended that the Anton Piller order ... and the search warrant ... should be executed at the same time

... [T]he plaintiffs' failure fully to inform Mr Justice Whitford ... [did not go to the question whether the order should be made at all]. It only meant that [he] did not consider whether he should include in his order some safeguard against the risk of the simultaneous execution of the search warrant and of the order proving oppressive ... If [he] had known all that I have learnt ... about the way in which [the applicant's company] conducted its business, he would have been all the more certain that he should make the order."

44. In the light of the foregoing, Mr Justice Warner gave the following decisions.

(a) Whilst he could not undo the irreversible, he would not allow the Plaintiffs to derive any further advantage from the Anton Piller order. Accordingly, he released the Defendants from the disclosure undertaking given to Mr Justice Dillon (see paragraph 41 above) and set aside those parts of the original order that required disclosure of particulars of suppliers and customers (see paragraph 26 (d) above).

(b) He declined to order return of the materials seized under the order.

(c) He held that he could neither dismiss the Plaintiffs' action nor, at that stage, award damages to Mr Chappell.

(d) Whilst the Defendants were undoubtedly in contempt of court for failure to make the affidavit of disclosure, no penalty should be imposed: it would be incongruous to release them from their undertaking and at the same time punish them for non-compliance.

(e) He dismissed Mr Chappell's cross-motion for contempt of court.

B. Court of Appeal

45. On 15 June 1982, the Court of Appeal rejected an appeal by Mr Chappell against dismissal of his contempt motion and allowed a cross-appeal by the Plaintiffs. The judgments given contained, *inter alia*, the following points.

(a) Whilst an Anton Piller order was necessary and salutary in certain cases, it was a draconian measure. It infringed what is normally the fundamental principle of *audi alteram partem*, as a result of proceedings in which the defendant had not been heard and of which

he had not even previously been informed. Hence the importance of full disclosure to the court from which the order was sought and of observing not only in the letter but in the spirit the stipulations it incorporated for the defendant's protection.

(b) Whilst Mr Justice Whitford had not been adequately informed of the plan to execute the order and the search warrant simultaneously, there had been no deliberate intention to deceive him.

(c) There had not been a plot by the Plaintiffs to enter the premises without permission, but it was "disturbing" that the Defendants were not given a proper opportunity to refuse entry at the door. Once inside, the Plaintiffs' solicitors had behaved with complete propriety and Mr Chappell, far from being "shattered", as he had contended, was "reasonably calm and collected".

(d) There was no objection in principle to a search warrant and an Anton Piller order obtained in respect of the same premises being executed "more or less contemporaneously", lest valuable evidence be lost. However, Lord Justice Oliver added that, if this was intended, the court from which the order was sought had to be told in advance so that it could consider safeguards for the defendant as regards, for example, the order of the searches or the conduct of the plaintiff on obtaining entry. In Lord Justice Lawton's view, steps should be taken to ensure that the two searches were not conducted "simultaneously" and that the solicitors executing the order did not seem to be "the hangers on of a squad of police officers".

(e) Mr Chappell had admitted dealing in "a substantial volume" of pirate material, he had not applied to Mr Justice Dillon in March 1981 for discharge of the order but had instead given wide undertakings, and the order was necessary for the Plaintiffs' protection.

Whilst describing what had happened as "unfortunate and regrettable", the Court of Appeal concluded that it was not necessary to set the Anton Piller order aside for the purpose of doing justice to Mr Chappell. It therefore restored the order, including the original disclosure requirements, but found it inappropriate to impose a penalty for his contempt of court in having failed to comply with his obligations in this respect.

The Court of Appeal also refused leave to appeal to the House of Lords. A petition by Mr Chappell for such leave was rejected by the House of Lords on 7 October 1982.

V. Later events

46. Mr Chappell had continued, until the end of April 1981, to operate a club for the exchange of video cassettes, but rather unsuccessfully on account of the seizure of his stock and books. On 21 December 1982 the action for breach of copyright was concluded by a High Court order, to which he, allegedly under duress of the risk of self-incrimination, and the Plaintiffs consented. This order:

(a) recorded the agreement of the Plaintiffs and Mr Chappell to release each other from all liability arising from the subject-matter of the action and its pursuit by the Plaintiffs;

(b) restrained Mr Chappell from any dealings with unlicensed copies of any films the copyright in which was owned by the Plaintiffs;

(c) required him to make an affidavit setting out the information about his suppliers and customers which the Anton Piller order had directed him to disclose by affidavit (see paragraph 26 (d) above), but omitting the names and addresses of bona fide members of the Video Exchange Club;

(d) released the Plaintiffs and their solicitors from their undertakings incorporated in the Anton Piller order, including that as to the confidentiality of the material obtained thereunder;

(e) directed that "all the documents and films" relating to the action be returned to Mr Chappell, after erasure of the films from the cassettes;

(f) directed that all further proceedings in the action be stayed.

PROCEEDINGS BEFORE THE COMMISSION

47. In his application (no. 10461/83) lodged with the Commission on 11 October 1982, Mr Chappell raised a variety of complaints concerning mainly the terms, content and manner of service of the Anton Piller order; he invoked Articles 3, 5, 6 and 8 (art. 3, art. 5, art. 6, art. 8) of the Convention and Article 1 of Protocol No. 1 (P1-1).

48. On 14 March 1985, the Commission declared the application admissible as regards the complaint that there had been an unjustified interference with the applicant's rights under Article 8 (art. 8) of the Convention by reason of the way in which the order was served and the subsequent search was carried out on the premises in question. The remainder of the application was declared inadmissible, notably a complaint about the existence of Anton Piller orders in general and (on the ground of non-exhaustion of domestic remedies) certain

allegations concerning the seizure during the search and misuse of private documents.

In its report of 14 October 1987 (made under Article 31) (art. 31), the Commission expressed the opinion, by six votes to five, that there had been no violation of Article 8 (art. 8). The full text of the Commission's opinion and of the three separate opinions contained in the report is reproduced as an annex to this judgment.

FINAL SUBMISSIONS TO THE COURT

49. At the hearing on 22 November 1988 the Government invited the Court "to decide and declare that the facts disclose no breach by the United Kingdom of the applicant's rights pursuant to Article 8 (art. 8) of the Convention".

The applicant, for his part, submitted that the "Government have not discharged their burden of establishing that [the interference] comes within Article 8 para. 2 (art. 8-2)" and that "there was therefore a breach".

AS TO THE LAW

I. INTRODUCTION

50. Mr Chappell alleged that he had been the victim of a breach of Article 8 (art. 8) of the Convention, which provides:

"1. Everyone has the right to respect for his private and family life, his home and his correspondence.

2. There shall be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society in the interests of national security, public safety or the economic well-being of the country, for the prevention of disorder or crime, for the protection of health or morals, or for the protection of the rights and freedoms of others."

This claim was contested by the Government and rejected by a majority of the Commission.

51. Before the Court, the Government accepted that there had been an "interference" with the exercise of the applicant's right to respect for his "private life" and "home". Mr Chappell, for his part, conceded that the interference had the aim, which was legitimate under paragraph 2 of Article 8 (art. 8-2), of protecting "the rights of others", in that it served to defend the Plaintiffs' copyright against unauthorised infringement.

The Court sees no reason to differ on either of these points. It will therefore concentrate on the issues that formed the core of the arguments before it, namely whether the interference was "in accordance with the law" and was "necessary in a democratic society".

II. "IN ACCORDANCE WITH THE LAW"

52. An interference cannot be regarded as "in accordance with the law" unless, first of all, it has some basis in domestic law (see, for example, the Leander judgment of 26 March 1987, Series A no. 116, p. 23, para. 50).

The applicant did not deny that this condition was satisfied, but he saw the legal basis for Anton Piller orders as residing solely in the inherent jurisdiction of the courts, whereas the Government attributed it partly to statute and partly to common law.

The English courts have indeed referred in this context to their inherent jurisdiction, particularly as regards the ex parte nature of Anton Piller orders; in other respects their making appears to be founded on the general statutory power of the courts to grant injunctions and on the Rules of the Supreme Court (see paragraphs 10-11 above). In any event, even if the applicant's view were to be adopted, there would in the Court's opinion still have been a sufficient legal basis for the interference complained of, since "law" includes unwritten or common law (see, for example, the Malone judgment of 2 August 1984, Series A no. 82, p.31, para. 66).

53. The applicant submitted that the grant and the execution of the Anton Piller order in his case were not "in accordance with the law" since they did not comply with English law. In support of his submission, which was accepted by a minority of the Commission, he relied on the following factors:

(a) the inadequate disclosure to Mr Justice Whitford, when the order was originally sought, of the arrangements between the Plaintiffs and the police (see paragraphs 29-33, 43 (g) and 45 (b) above);

(b) the manner in which the Plaintiffs gained admission to the premises on 2 March 1981, which in effect denied him his right to refuse entry (see paragraphs 35, 43 (d) and 45 (c) above);

(c) the fact that the searches of the premises by the Plaintiffs and the police were conducted simultaneously and by a total of sixteen or seventeen people, and the adverse effects of this on Mr Chappell's ability to supervise the operations (see paragraphs 34, 38 and 43 (e) above);

(d) the absence from the Anton Piller order of the usual undertaking to inform the person served of his right to obtain legal advice (see paragraphs 17 (c) (i) and 27 above) and the alleged fact that Mr Chappell did not receive proper legal advice before the Plaintiffs' search was effected (see paragraph 38 above);

(e) the fact that no inventory of the material seized was prepared (see paragraph 39 above);

(f) the removal of a number of private papers unconnected with the copyright action (see paragraph 39 above);

(g) the Plaintiffs' access, after their search of Mr Chappell's premises, to other documents of his at Bath police station (see paragraph 40 above).

54. The Court observes that factors (a), (b) and (c) were raised by the applicant before, and examined in detail by, the domestic courts (see paragraphs 41-45 above). It is true that at the end of the day no penalty was imposed on Mr Chappell for his contempt of court in failing to file the affidavit of disclosure. However, this relief was afforded solely because Mr Justice Whitford had not been fully informed of the arrangements with the police. Both the High Court and the Court of Appeal rejected Mr Chappell's cross-motion relating to alleged contempt of court by the Plaintiffs in not abiding by their undertakings incorporated in the Anton Piller order. Above all, neither court held that the three factors in question rendered the order or its execution unlawful: thus, Lord Justice Lawton in the Court of Appeal said that he could "see no reason why the ... order ... should not stand".

In these circumstances, the Court is unable to arrive at a different conclusion. It recalls that the Court's power to review compliance with domestic law is limited, it being in the first place for the national authorities, notably the courts, to interpret and apply that law (see the Barthold judgment of 25 March 1985, Series A no. 90, p. 22, para. 48).

55. Neither is the Court persuaded that the remaining matters relied on by the applicant suffice to establish that the interference was not in conformity with English law.

As to factor (d), Mr Chappell did in fact, notwithstanding the terms of the order, receive legal advice before the Plaintiffs began their search (see paragraph 38 above). Furthermore, that advice was described by Mr Justice Warner in the High Court as "the only sensible advice" that could have been given.

As to factor (e), the Anton Piller order did not require that an inventory of the seized material be prepared (see paragraph 27 above).

The complaint concerning the removal of private papers (factor (f)) was declared inadmissible by the Commission (see paragraph 48 above), with the result that this point falls outside the scope of the case before the Court.

Finally, factor (g) concerns an occurrence after the actual search of the premises and thus does not bear directly on, and cannot be regarded as decisive for an assessment of, the lawfulness in domestic terms of the interference complained of. The Court notes moreover that the applicant's complaints in regard to this occurrence were held by the domestic courts to be unfounded.

56. It remains to consider whether the further requirements which the Court has identified as flowing from the phrase "in accordance with the law" were satisfied.

The relevant texts and case-law were all published, so clearly no problem arises concerning the law's "accessibility", as that expression is understood in the Court's earlier judgments.

As regards "foreseeability", as likewise understood, the applicant maintained that the granting of Anton Piller orders and, in particular, their terms were largely matters of discretionary practice and that the state of the law was too "amorphous" for it to constitute "law" for the purposes of paragraph 2 of Article 8 (art. 8-2).

The Court does not share this view. Since 1974 a substantial body of case-law has restated and refined the principles followed by the English courts as regards Anton Piller orders (see paragraphs 10-24 above). It is true that some variations may occur as between the content of individual orders. Nevertheless, the basic terms and conditions for the grant of this relief were, at the relevant time, laid down with sufficient precision for the "foreseeability" criterion to be regarded as satisfied.

57. In its report, the Commission examined whether the legal basis for the interference at issue satisfied the further criterion of showing respect for the applicant's rights, and concluded that it did. In so doing - the Delegate explained at the hearing - the Commission had had in mind dicta of the Court exemplified by the following passage from its Olsson judgment of 24 March 1988 (Series A no. 130, p. 30, para. 61 (b)):

"The phrase 'in accordance with the law' does not merely refer back to

domestic law but also relates to the quality of the law, requiring it to be compatible with the rule of law; it thus implies that there must be a measure of protection in domestic law against arbitrary interferences by public authorities with the rights safeguarded by, inter alia, paragraph 1 of Article 8 (art. 8-1)"

An Anton Piller order is granted without the defendant's being notified or heard and is capable of producing damaging and irreversible consequences for him (see paragraphs 11 and 24 above). For these reasons it is essential that this measure should be accompanied by adequate and effective safeguards against arbitrary interference and abuse. In point of fact, the order made against Mr Chappell and his company was coupled with a number of safeguards of various kinds, to which the Court refers below in its examination of the necessity of the interference.

III. "NECESSARY IN A DEMOCRATIC SOCIETY"

58. Mr Chappell did not allege that the grant of the Anton Piller order in his case, as such, was not "necessary in a democratic society". However, as regards its terms, he questioned the adequacy of the safeguards incorporated in and the remedies available to him in respect of the order, especially in view of the irreversible consequences of its implementation. Above all, he directed his submissions to the manner in which the measure had been executed: advertent to the factors set out at (b) to (g) in paragraph 53 above, he contended that the interference with his rights was not proportionate to the legitimate aim pursued. A minority of the Commission agreed with this conclusion.

A. The grant and terms of the order, as such

59. The order made against Mr Chappell and his company was granted only after Mr Justice Whitford had been supplied with evidence establishing that the requisite conditions were met (see paragraphs 9 and 16 above). Bearing in mind the nature and scope of the applicant's business (see paragraphs 8, 38 and 45 (e) above), the Court - quite apart from any question of the United Kingdom's margin of appreciation - entertains no doubt that the actual grant of the order was a necessary step in the effective pursuit by the Plaintiffs of their copyright action.

60. It has also to be noted that the order itself incorporated significant limitations on its scope. Thus, the relief afforded was granted for a short period only; restrictions were placed on the times at which and the number of persons by whom the Plaintiffs' search could be effected; and any materials seized could be used only for a

specified purpose (see paragraphs 25, 26 (b) and 27 above). In this way, the measure was accompanied by safeguards calculated to keep its impact within reasonable bounds. Furthermore, these safeguards were buttressed by a series of undertakings given by the Plaintiffs or their solicitors, and a variety of remedies was available to the applicant in the event that he considered the order to have been improperly executed (see paragraphs 27 and 20-23 above).

On the subject of safeguards, the applicant submitted that if the arrangements between the Plaintiffs and the police had been more fully disclosed to the High Court at the outset, further conditions would have been imposed. Their result, he said, would have been to preclude the two searches of his premises being conducted simultaneously. Whilst this may be so, the Court does not consider that on this account the order, in substance, was not "necessary". At most, this point may go to the question, which the Court examines below, whether the actual execution of the order was proportionate to the legitimate aim pursued.

61. Mr Chappell further maintained - and in this he was supported by a minority of the Commission - that the High Court was unable to supervise implementation of the Anton Piller order to a sufficient degree. In his view, its execution should, rather than being left to the Plaintiffs' solicitors, have been entrusted to or supervised by an independent court official.

The Court is not persuaded by this argument. It is true that a solicitor executing such an order may find himself faced with a conflict between his obligations to his client and his duty to the court, as one of its officers. However, a solicitor who fails to abide by an undertaking of his incorporated in the order lays himself open to heavy penalties, even to the point in some circumstances of putting his professional career in jeopardy (see paragraph 17 in fine above).

B. The execution of the order

62. There remains the question whether the actual execution of the order can be regarded as "necessary" and, in particular, as proportionate to the legitimate aim pursued.

The Court, first of all, finds itself unable to accept that factors (d), (e), (f) and (g) set out in paragraph 53 above justify the applicant's allegation in this respect. Factor (f) relates to a matter which the Commission declared inadmissible (see paragraph 55 above). The other three, on which the Court refers to its observations in paragraph 55 above, are not in its opinion of

sufficient weight to warrant a finding of disproportionality.

63. Of more consequence are the remaining factors relied on, namely the manner in which the Plaintiffs gained entry to the applicant's premises and the fact that the latter were searched, simultaneously, by sixteen or seventeen people.

The Court would agree with the criticisms of these aspects of the case made by the Court of Appeal, which described what happened as "disturbing" and "unfortunate and regrettable" (see paragraph 45 above).

64. Mr Chappell was admittedly not afforded a proper opportunity to refuse the Plaintiffs entry to his premises at the door, since members of their party entered together with Detective Chief Inspector A (see paragraphs 35, 43 (d) and 45 (c) above).

However, the applicant subsequently raised no objection on this score. Indeed, rather than exercising his right of asking the Plaintiffs to leave, he acquiesced, after receiving legal advice, in their search operations. Moreover, it was not until such advice had been tendered that those operations were put in hand (see paragraph 38 above).

65. Manifestly the simultaneous searches by the police and the Plaintiffs must have been distracting for Mr Chappell and must have created difficulties for him, as regards supervision and as regards taking advice from and giving instructions to his solicitor. Indeed, Mr Justice Warner recognised that this circumstance made the execution of the Anton Piller order "more oppressive than it should have been" (see paragraph 43 (g) above).

Against this have to be weighed the following factors. Firstly, it is clear that the two searches concerned at least partly the same materials. Secondly, the applicant made no request for one of the searches to be deferred until the other had been completed. Thirdly, the domestic courts - after hearing first-hand evidence - found that in fact Mr Chappell was able to look after his interests whilst the order was being implemented (see paragraphs 43 (e) and 45 (c) above). Finally, Mr Justice Warner found that "there was nothing inherently wrong with the mode of execution" of the order and the Court of Appeal concluded that it was not necessary to set the order aside for the purpose of doing justice to Mr Chappell (see paragraphs 43 (g) and 45 above).

66. In the light of the above, the Court is of the opinion that the shortcomings in the procedure followed - which, by its very nature, was bound to cause some difficulties for the applicant - were

not so serious that the execution of the order can, in the circumstances of the case, be regarded as disproportionate to the legitimate aim pursued.

This being so, the Court does not find it necessary to go further into the matter - which was examined by the majority of the Commission in some detail - of the remedies available to the applicant.

IV. CONCLUSION

67. In conclusion, no breach of Article 8 (art. 8) has been established in the circumstances of the present case.

FOR THESE REASONS, THE COURT UNANIMOUSLY

Holds that there has been no violation of Article 8 (art. 8).

Done in English and in French, and delivered at a public hearing in the Human Rights Building, Strasbourg, on 30 March 1989.

Signed: Rolv RYSSDAL
President

Signed: Marc-André EISSEN
Registrar

BOWDEN CONTROLS LTD v ACCO CABLE
CONTROLS LTD AND ANOR
CHANCERY DIVISION (PATENTS COURT)
[1990] RPC 427
HEARING-DATES: 4 May 1990
4 May 1990

ALDOUS J: In this motion the plaintiff, Bowden Controls Limited, seeks against Acco Cable Controls Limited and Mr John Young an injunction until judgment or further order restraining them from issuing any threats of proceedings for infringement of European patent No 0055649, whether by circulars, advertisements, letters or otherwise. Secondly, they seek an order that the defendants do within seven days make, swear, and serve upon the plaintiff an affidavit setting forth the names and addresses of all persons to whom they have issued any threat whether in writing or orally in the same or similar terms to the letter to Freight Rover dated 6 February 1990.

The plaintiff is a long established and well-known manufacturer of remote control mechanisms which it sells to the major car manufacturers. Since 1981 it has been engaged in the development of flexible clutch control cables incorporating an autoadjust device which, during use, automatically compensates for clutch wear. In 1984 it obtained approval from Volkswagen for the use of such a control mechanism for use in the 'Polo' range which is called the Bowden Auto-Adjust Mark I and I understand that that mechanism has in fact been supplied and installed in that range. Since then they have produced a Mark II version which is, according to the plaintiff's evidence, different in construction to the Mark I.

The first defendant is a competitor of the plaintiff and is a subsidiary of Babcock Industrial Holdings Inc, which is a subsidiary of FKI Plc. Until April 1988 the first defendant did not trade and the trade of control mechanisms was conducted through other associated companies. Mr McGinity, who is a director and the chairman of the first defendant, estimates that the first defendant has now about 21 per cent of the United Kingdom market for control mechanisms and that the plaintiff has about 16 per cent. The second defendant has been the managing director of the first defendant since 1 February 1989.

As is apparent from the relief sought in the

notice of motion, which I have read, the complaint of the plaintiff is that the defendants have issued threats. Mr Duncan, the managing director of the plaintiff, said in his first affidavit that in 1984/85 he heard that companies in the group, of which the first defendant is part, were making statements to the plaintiffs' customers that Auto-Adjust cable mechanisms supplied by the plaintiff infringed certain patents. However, he could not obtain concrete evidence of such statements.

Clearly the Babcock group had in mind that such mechanisms did infringe their patent rights in that, on the instructions of Mr McGinity, the patent manager for the group wrote to Mr Duncan a letter dated 7 January 1987. That letter stated:

"Dear Mr Duncan, An agreement has recently been signed which, inter alia, transfers ultimate ownership to Babcock International plc of various patents including European Patent No 0055649 (effective, ia, in Germany and Gt Britain) and US Patent No 4.46495, copies attached. Licences are available under these patents and in view of your supply of self-adjusting clutch cable control devices to Messrs Volkswagen perhaps you might care to consider the situation. To facilitate consideration, I have spoken briefly to Mr Main and am sending a copy of this letter to him. I trust that such action is acceptable to you."

Mr Duncan did not reply to that letter and the patent manager wrote again on 27 May 1987 to this effect:

"Dear Mr Duncan, I am writing on behalf of Societe des Cable du Mans, a subsidiary company of Babcock International plc.

"As indicated in my letter dated 7 January 1987, Societe des Cable du Mans are the owners of European Patent No 0055649, a copy of which is enclosed with that letter.

"I am advised that your clutch cable adjuster device supplied to Messrs Volkswagen AG and bearing their part numbers 867-721-335F and 868-721-335E infringes the claims of the German portion (No P31 62 701.3) of European Patent 0055649.

"Are you prepared to agree that infringement has occurred and to give the addresses of the German concerns to which you have supplied the devices and the numbers of the devices so supplied?

"A reply to this enquiry should be in my hands by 10th June 1987 so I am taking the liberty of

sending you a copy to Mr PS Main of Messrs Hyde, Heide & O'Donnell, your British Patent Agents, in case you wish to seek his advice."

Again, Mr Duncan did not reply.

In January 1989 proceedings were brought in Germany by Societe des Cable du Mans, a French company within the group alleging that the plaintiff's mechanism infringed the German European Patent. The mechanism in dispute was the plaintiff's Mark I version. The Dusseldorf Court on 5 December held that the Mark I infringed and the plaintiff has appealed against that judgment to the Oberlandesgericht.

The plaintiff was concerned at reports that threats of patent proceedings had been made to its customers and on 27 June 1989 solicitors acting on its behalf wrote to the first defendant this letter:

"Dear Sirs, It has come to the notice of our client, Bowden Controls Limited, that statements are being made by you and/or your subsidiary, Societe des Cable du Mans SA, that Bowden's self-adjusting clutch control cable (Mk I) infringes European Patent (Germany) 0055649.

Although there are infringement proceedings under way in Dusseldorf, Germany against Bowden in respect of the aforementioned patent, there has, in fact, been no finding of infringement by a competent Court. In so far as your statements are concerned with the German Patent, they are made in contempt of the German Courts and, if persisted in, will leave our client with no other option but to bring this matter to the attention of the Dusseldorf Court. To the extent that these statements are intended to be taken as a threat of proceedings under the corresponding United Kingdom Patent, they are groundless threats within the scope of section 70 of the Patents Act 1977 and constitute unlawful interference in our client's trade relations with third parties and a trade libel in respect of our client's products. If persisted in, our client will seek relief in the English Courts. Our client will see any similar threats made in other countries in the same light.

"Our client also has reason to believe that you and/or your subsidiary Cable du Mans are also making statements, the implication of which are that our client's self-adjusting clutch control cable (Mk II) infringes your above-mentioned European patent and that Bowden will be enjoined from making supplies of this cable. Our client has obtained opinions that the Mk II cable does not infringe your European Patent

(UK) 0055649 and your corresponding German Patent. Unless you desist from repeating these statements, our clients will be obliged to seek relief in the United Kingdom Courts on the basis set out above."

It should be noted that in that letter the plaintiff puts the First Defendant upon notice that if threats were made action would be taken and also that they were marketing a Mark II version which they had been advised did not infringe the patent.

Mr McGinity on behalf of the first defendant replied to that letter of 30 June 1989. He said:

"Dear Sirs, Thank you for your letter dated 27th June 1989.

"I am not aware of any instance where statements have been made to customers that your client is infringing European Patent (Germany) 0055649 or corresponding patents elsewhere and will be stopped from supplying.

"I note that it is considered by your clients that their so-called Mk I self-adjusting clutch control cable does not infringe the Patent but, in the absence of any indication of the form of such cable, am unable to comment. I also note, however, that you do not state that the Mk II device does not infringe the patent.

"If your clients wish to discuss the possibility of a licence, I will be pleased to accommodate them since we have never adopted the attitude that we would wish to stop their supply of the devices and, indeed, have written to them to that effect in the past."

On 13 February the plaintiff obtained a copy of a letter dated 6 February 1990 that the second defendant, Mr Young, had written on behalf of the first defendant to Freight Rover. Similar letters were written to Rover, Jaguar, Peugeot, Talbot, Land Rover, Leyland-DAF and Unipart. The letter, which is the subject of the action, is in this form:

"Dear Les, We wish to bring to your attention that following the institution of a legal action in 1988, the Dusseldorf District Court has found that Acco Cables European Patent No 0055649 is infringed by auto adjust cable assemblies supplied by Bowden Controls Ltd, incorporating a control member connected to the cable by friction serving to actuate an interlocking member, effective to lock the auto adjust device when the control assembly is operated.

"Acco patents corresponding to European 0055649 exist in all major European vehicle

manufacturing countries.

"It is the intention of Acco Cable Controls to enforce the rights arising by virtue of these patents in a realistic manner and will carefully ensure all current customers requirements are properly safeguarded.

"A copy of the court judgment can be supplied on written request. Regards."

The defendants have recently served their defence and in it they deny that that letter constituted an actionable threat and also content that if it does contain a threat of proceedings then proceedings may not be brought because it falls within the ambit of section 70(4) of the 1977 Act.

As this is a motion to restrain threats pending hearing of the action, I have to apply the principles laid down in the American Cyanamid case [1975] AC 396. First, I must decide whether there is a serious issue to be tried between the parties; second, whether damages would be an adequate remedy for the plaintiff; third, whether the defendant could be adequately compensated under the cross-undertaking as to damages; and, fourth, where the balance of convenience lies.

If the plaintiff in the action establishes that the letter of 6 February is a threat of patent proceedings, then it will succeed unless the defendant justifies those threats or alternatively can rely upon the provisions of section 70(4). In the present case the defendant does not seek to justify the threats and, therefore, I need not consider that further. Thus, the first question for me is whether the plaintiff has a reasonably arguable case that the letter is a threat.

The letter does not explicitly threaten patent proceedings, but states that the first defendant will enforce its rights. The fact that it is not explicit that patent proceedings will be taken is in no way conclusive as a threat can be veiled or implied just as much as it can be explicit. If the letter is analysed it is in three parts. The opening paragraph informs the reader that the plaintiff's Auto-Adjust cables, having particular features, have been held in Dusseldorf to infringe the European patent number 0055649. The middle paragraph states that the corresponding patents exist in all major European countries and that would be read as including the United Kingdom. The third paragraph states that the first defendants intend to enforce their rights arising from such patents in a realistic manner taking care to ensure that current customer

requirements are properly safeguarded. The implication of the statement that current customer requirements would be safeguarded must be either that future customers might not be or that only the current requirements of customers would be.

The parties accept that it is for me to decide whether the letter of 6 February is a threat and that I must look at the letter through the eyes of a reasonable and normal recipient and thereafter decide whether there is a reasonable argument that it would be understood as a threat of patent proceedings. This was the approach of Clauson J in *Lunar Advertising Company Ltd v Burnham & Company* (1928) 45 RPC 258 at 260, line 14, when he said:

"Do those facts which I have recited from Mr Burke's affidavit satisfy me that as a matter of fact Mr Beams threatened Messrs Gilbey with legal proceedings or liability; in other words, if I, or had this matter come before a Jury, the Jury, had been present at that interview, what could we have supposed that Mr Beams intended to convey to Mr Burke having regard to Mr Beams' statement that he had been instructed to call with reference to the matter, having regard to his statement that the sign was an infringement of his firm's patent, having regard to his request to the Company to take steps to have the sign immediately removed, and having regard to the fact that, when he was asked by what authority he was making this statement and demand, he referred to an interest in Letters Patent?"

Thus my task is to decide, taking into account such background matters as would be available to a reasonable recipient, whether the letter contains a threat of proceedings against the recipient or against the plaintiff.

I, therefore, turn to consider whether a recipient would understand the letter as containing a threat of proceedings. In my view, it can be reasonably argued that a reader of that letter would understand that the purpose of the first two paragraphs was to suggest that the Auto-Adjust mechanism being marketed by the plaintiff infringed the patent and that this was not just an allegation as the German court had so decided. No distinction is drawn in the letter between the Mark I and the Mark II, even though the defendants were informed of the existence of the Mark II in the solicitor's letter of 27 June 1989. Further, there is, in my view, a reasonable argument that the third paragraph would be understood as a threat that the first defendant

would enforce the patent. That is, in effect, explicitly stated and, in my view, really not contested by Mr McGinity in paragraph 17 of his first affidavit.

However, the defendants submitted that the recipient of that letter would not have understood the letter as a threat that proceedings might be brought against the recipient. They say that the surrounding circumstances in the business is such that the purchasing customers, being the major car companies, are the dominant parties in the trade and in most cases require dual sourcing of their purchases. They said that the recipient would know that it was inconceivable that proceedings would ever be brought by the first defendant to enforce any patent right against the recipient. Further, the defendants say that they would not do so as this would be commercial suicide.

I have to take into account the commercial background and knowledge of a recipient of the type to whom these letters were sent. However, I believe it right to assume that he would read the letter carefully realising that it was meant to convey to him information which the first defendant considered important. He would realise that it contained a threat of patent proceedings. He would realise that there is nothing in the letter which explicitly excluded him from the threat. Even if he thought that suppliers did not consider it practical to sue manufacturers, I believe the recipient would consider what was the purpose of the letter. He would conclude that the purpose of the letter was to give him information and a warning. That requires the answer: a warning as to what?

I turn back to the letter which only tells him that the enforcement would be in a realistic manner and that either current customers or customers' current requirements would be safeguarded. To my mind, the plaintiff has a reasonable argument that the recipient would understand that letter as containing a threat of patent proceedings against the recipient and against the plaintiff. It appears to me to be reasonably argued that any requirements which are not current but for the future, and in particular for different models, might well be met by patent proceedings.

There is, in my view, a serious issue to be tried as to whether the letter would be so read by a recipient. As I have said, the defendants do not agree with the conclusion that I have reached. They believe that the recipients of the letter

would not regard the letter as a threat that proceedings would be commenced against them. Mr Lewis, who is the patent manager for the group, swore an affidavit in which he stated that he visited personnel at Jaguar, Land Rover and Peugeot to ascertain their reactions upon receipt of the letter. He records their comments as "Of no concern" to Land Rover; "of no interest" to Jaguar; and "how are we involved?" at Peugeot. That evidence is, in my view, not admissible as Mr Lewis has not identified the source of those statements.

The requirements for the contents of affidavits are set out in RSC Order 41, rule 5 which make it clear that the source of the information and belief have to be given if hearsay evidence is to be admissible in an affidavit. Mr Lewis has not named the persons who made those statements. The vice of admitting that evidence can be seen from the fact that it is not possible, without knowing who the person is, to come to any view as to whether the statements that are recorded were made because of particular information that the person had or the particular status of the person. Therefore, it does not mean that other recipients within the company would take the same view. Certainly, the reaction of the persons at Land Rover and Jaguar appear to me to be in conflict with the intention of the first defendant when it sent the letter. The first defendant must have thought that the information in the letter was of concern and interest to the recipients. Therefore, it is very surprising that the reaction was that it was of no concern and of no interest. Further, it is not without significance that the persons to whom Mr Lewis talked do not appear to have told him that they did not regard the letter as a threat against them because, if they had, I would have expected it to be recorded in the affidavit.

In view of the conclusion I have reached, I need not go on to deal with the defence raised by the defendants under section 70(4) of the Act, but will shortly set out my conclusions. Section 70 is in these terms:

"(1) Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or otherwise threatens another person with proceedings for any infringement of a patent, a person aggrieved by the threats (whether or not he is the person to whom the threats are made) may, subject to subsection(4) below, bring proceedings in the court against the person making the threats, claiming any relief mentioned in subsection (3)

below."

I need not read subsections (2) and (3).

Subsection (4) provides:

"Proceedings may not be brought under this section for a threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal or of using a process."

First, the defendants submit that subsection (4) precludes proceedings being brought when the threats are made against the manufacturer, namely the plaintiff. If they are right that the letter only threatens the plaintiff as they contend, then they submit they have a good defence under subsection (4).

The plaintiff, on the other hand, submits that subsection (4) only prevents proceedings being brought in respect of threats alleged to consist of making or importing a product for disposal and that the statements made in the letter go wider and include threats in respect of sales by the plaintiff. Thus, the subsection does not provide a defence in respect of the particular threats that were made.

I believe the plaintiff has a reasonably arguable case that the threats do go wider than threats to enforce the patent to restrain the manufacturer. Further, I believe they have an arguable case that the alleged threats go wider than enforcement against manufacture for sale or supply. The letter talks about enforcing patents rights. Such rights include manufacture, offer for sale, sale and disposal. In my view, the letter could be read as seeking to enforce all rights given under section 60 of the Patents Act 1977.

Thus, it could reasonably be read as stating that they would seek an injunction -- I assume that it is in this case limited to an injunction against the plaintiff -- to prevent sale of parts which have already been manufactured by the plaintiff. Thus there could be a cut-off of supply of parts which had been manufactured. In my view, if that is so, the letter is not merely saying that the defendant will seek to prevent manufacture for supply, but it can also be reasonably argued as threatening to enforce rights to prevent mechanisms being sold which have been already manufactured.

Upon that view, the submission put forward by the plaintiff finds some support in the judgment of Oliver LJ in *Therm-A-Stor Ltd v Weatherseal Windows Ltd* [1981] FSR 579. At page 594 he said:

"The defendants contest the application of section 70 at all, but say in any event that subsection (4) does not cover this type of case. It is confined, it is submitted, to threats against the primary infringer.

"Section 60(1) provides that a person infringes a patent if, where the invention is a product, he makes, disposes of, offers to dispose of, uses or imports 'the product.' So, it is submitted, what section 70(4) is referring to is a threat in relation to the making of the same product as is referred to in section 60(1). We find great difficulty in accepting that.

"The word 'product' is a perfectly general word apt to describe any article and there is nothing in subsection (4) of section 70 which indicates an intention to confine it to a product which is itself the subject-matter of a patent. The intention of the legislature seems to have been to enable a person, whether a patentee or not, to threaten infringement proceedings with impunity under either subsections (1) or (2) of section 60 where what is complained of as an infringement is the making of a product for disposal."

Although in that case the particular point that was argued before me was not explicitly dealt with, there is some indication that the construction put forward by the plaintiff is a reasonable one to be argued and, therefore, I have come to the conclusion that there is a serious issue to be tried upon this matter as well.

The second matter that was argued under section 70(4) is that the plaintiff says that the section only covers threats made to a manufacturer or importer by a person having the right to actually bring legal proceedings in respect of a patent. Thus, as the threats were made to persons who were not the manufacturers or importers by the defendants who had no rights under the patent, subsection (4) does not apply. This appears to be a submission which has not been considered by the courts before and it may be of considerable importance to practitioners. It is not necessary for me to come to any conclusion on the matter and I do not believe it right that I should do so on this motion.

[T]here is a serious issue to be tried between the parties as to whether there is an actionable threat within section 70 of the Act and I must now turn to the other matters that need to be considered according to the principles laid down in *American Cyanamid*.

American Cyanamid Co v Ethicon Ltd

HOUSE OF LORDS

[1975] AC 396, [1975] 1 All ER 504, [1975] 2 WLR 316, [1975] RPC 513, [1975] FSR 101

HEARING-DATES: 12, 14 NOVEMBER 1974,
5 FEBRUARY 1975

5 FEBRUARY 1975

LORD DIPLOCK, VISCOUNT DILHORNE,
LORD CROSS OF CHELSEA, LORD SALMON
AND LORD EDMUND-DAVIES

LORD DIPLOCK. My Lords, this interlocutory appeal concerns a patent for the use as absorbable surgical sutures of filaments made of a particular kind of chain polymer known as 'a polyhydroxyacetic ester' ('PHAE'). These are sutures of a kind that disintegrate and are absorbed by the human body once they have served their purpose. The appellants ('Cyanamid'), an American company, are the registered proprietors of the patent. Its priority date in the United Kingdom is 2nd October 1964. At that date the absorbable sutures in use were of natural origin. They were made from animal tissues popularly known as catgut. The respondents ('Ethicon'), a subsidiary of another American company, were the dominant suppliers of catgut sutures in the United Kingdom market.

Cyanamid introduced their patented product in 1970. The chemical substance of which it is made is a homopolymer, i e all the units in the chain, except the first and the last ('the end stabilisers'), consist of glycolide radicals. Glycolide is the radical of glycolic acid, which is another name for hydroxyacetic acid. By 1973 this product had succeeded in capturing some 15 per cent of the United Kingdom market for absorbable surgical sutures. Faced with this competition to catgut, Ethicon who supplied 80 per cent of the market were proposing to introduce their own artificial suture ('XLG'). The chemical substance of which it is made is not a homopolymer but a copolymer, i e although 90 per cent by weight of the units in the chain

consist of glycolide radicals, the remaining ten per cent are lactide radicals which are similar in chemical properties to glycolide radicals but not identical in chemical composition.

Cyanamid contend that XLG infringes their patent, of which the principal claim is 'A sterile article for the surgical repair or replacement of living tissue, the article being readily absorbable by living tissue and being formed from a polyhydroxyacetic ester'. As is disclosed in the body of the patent, neither the substance PHAE nor the method of making it into filaments was new at the priority date. Processes for manufacturing filaments from PHAE had been the subject of two earlier United States patents in 1953 (Lowe) and 1954 (Higgins). The invention claimed by Cyanamid thus consisted of the discovery of a new use for a known substance.

On 5th March 1973 Cyanamid started a quia timet action against Ethicon for an injunction to restrain the threatened infringement of their patent by supplying sutures made of XLG to surgeons in the United Kingdom. On the same day they gave notice of motion for an interlocutory injunction. Voluminous affidavits and exhibits were filed on behalf of each party. The hearing of the motion before Graham J lasted three days. On 30th July 1973 he granted an interlocutory injunction on the usual undertaking in damages by Cyanamid.

Ethicon appealed to the Court of Appeal. The hearing there took eight days. On 5th February 1974 the Court of Appeal gave judgment. They allowed the appeal and discharged the judge's order. Leave to appeal from that decision was granted by your Lordships' House. It was estimated that the hearing in this House of the appeal at which leave to adduce more affidavit evidence was to be sought would last 12 days.

The question whether the use of XLG as an absorbable surgical suture is an infringement of Cyanamid's patent depends on the meaning to be given to the three words 'a polyhydroxyacetic ester' in the principal claim. Cyanamid's contention is that at the date of publication of the patent those words were used as a term of art in the chemistry of polymerisation not only in the narrower meaning of a homopolymer of which the units in the claim, apart from the end stabilisers, consisted solely of glycolide radicals but also in the broader meaning of a copolymer of which up to 15 per cent of the units in the chain would be lactide radicals; and that what

was said in the body of the patent made it clear that in the claim the words were used in this wider meaning.

Ethicon's first contention is that the words 'a polyhydroxyacetic ester' in the principal claim bear the narrower meaning only, viz that they are restricted to a homopolymer of which all the units in the chain except the end stabilisers consist of glycolide radicals. In the alternative, as commonly happens where the contest is between a narrower and a wider meaning in a patent specification, they attack the validity of the patent, if it bears the wider meaning on the grounds of inutility, insufficiency, unfair basis and false suggestion. These objections are really the obverse of their argument in favour of the narrower construction. They are all different ways of saying that if the claim is construed widely it includes copolymers which will not have as surgical sutures the characteristics described in the body of the patent. Ethicon also attack the validity of the patent on the ground of obviousness.

Both Graham J and the Court of Appeal felt constrained by authority to deal with Cyanamid's claim to an interlocutory injunction by considering first whether, on the whole of the affidavit evidence before them, a prima facie case of infringement had been made out. As Russell LJ put it in the concluding paragraph of his reasons for judgment with which the other members of the court agreed --

'If there be no prima facie case on the point essential to entitle the plaintiff to complain of the defendant's proposed activities, that is the end of the claim to interlocutory relief.'

'Prima facie case' may in some contexts be an elusive concept, but the sense in which it was being used by Russell LJ is apparent from an earlier passage in his judgment. After a detailed analysis of the more conflicting expert testimony he said:

'I am not satisfied on the present evidence that on the proper construction of this specification, addressed as it is to persons skilled in the relevant art or science, the claim extends to sterile surgical sutures produced not only from a homopolymer of glycolide but also from a copolymer of glycolide and up to 15 per cent of lactide. That is to say that I do not consider that a prima facie case of infringement is established.'

In effect what the Court of Appeal was doing was trying the issue of infringement on the

conflicting affidavit evidence as it stood, without the benefit of oral testimony or cross-examination. They were saying: 'If we had to give judgment in the action now without any further evidence we should hold that Cyanamid had not satisfied the onus of proving that their patent would be infringed by Ethicon's selling sutures made of XLG.' The Court of Appeal accordingly did not find it necessary to go into the questions raised by Ethicon as to the validity of the patent or to consider where the balance of convenience lay.

Geaham J had adopted the same approach as the Court of Appeal; but, on the same evidence he had come to the contrary conclusion on the issue of infringement. He considered that on the evidence as it stood Cyanamid had made out a 'strong prima facie case' that their patent would be infringed by Ethicon's selling sutures made of XLG. He then went on to deal briefly with the attack on the validity of the patent and came to the conclusion that on the evidence before him none of the grounds of invalidity advanced by Ethicon was likely to succeed. He therefore felt entitled to consider the balance of convenience. In his opinion it lay in favour of maintaining the status quo until the trial of the action. So he granted Cyanamid an interlocutory injunction restraining Ethicon from infringing the patent until the trial or further order.

The grant of an interlocutory injunction is a remedy that is both temporary and discretionary. It would be most exceptional for your Lordships to give leave to appeal to this House in a case which turned on where the balance of convenience lay. In the instant appeal, however, the question of the balance of convenience, although it had been considered by Graham J and decided in Cyanamid's favour, was never reached by the Court of Appeal. They considered that there was a rule of practice so well established as to constitute a rule of law that precluded them from granting any interim injunction unless on the evidence adduced by both the parties on the hearing of the application the applicant had satisfied the court that on the balance of probabilities the acts of the other party sought to be enjoined would, if committed, violate the applicant's legal rights. In the view of the Court of Appeal the case which the applicant had to prove before any question of balance of convenience arose was 'prima facie' only in the sense that the conclusion of law reached by the court on that evidence might need to be modified at some later date in the light of further

evidence either detracting from the probative value of the evidence on which the court had acted or proving additional facts. It was in order to enable the existence of any such rule of law to be considered by your Lordships' House that leave to appeal was granted.

The instant appeal arises in a patent case. Historically there was undoubtedly a time when in an action for infringement of a patent that was not already 'well established', whatever that may have meant, an interlocutory injunction to restrain infringement would not be granted if counsel for the defendant stated that it was intended to attack the validity of the patent.

Relics of this reluctance to enforce a monopoly that was challenged, even though the alleged grounds of invalidity were weak are to be found in the judgment of Scrutton LJ as late as 1924 in *Smith v Grigg Ltd*,¹ but the elaborate procedure for the examination of patent specifications by expert examiners before a patent is granted, the opportunity for opposition at that stage and the provisions for appeal to the Patent Appeal Tribunal in the person of a patent judge of the High Court, make the grant of a patent nowadays a good prima facie reason, in the true sense of that term, for supposing the patent to be valid, and have rendered obsolete the former rule of practice as respects interlocutory injunctions in infringement actions. In my view the grant of interlocutory injunctions in actions for infringement of patents is governed by the same principles as in other actions. I turn to consider what those principles are.

My Lords, when an application for an interlocutory injunction to restrain a defendant from doing acts alleged to be in violation of the plaintiff's legal right is made on contested facts, the decision whether or not to grant an interlocutory injunction has to be taken at a time when *ex hypothesi* the existence of the right or the violation of it, or both, is uncertain and will remain uncertain until final judgment is given in the action. It was to mitigate the risk of injustice to the plaintiff during the period before that uncertainty could be resolved that the practice arose of granting him relief by way of interlocutory injunction; but since the middle of the 19th century this has been made subject to his undertaking to pay damages to the defendant for any loss sustained by reason of the injunction if it should be held at the trial that

¹[1924] 1 KB 655 at 658

the plaintiff had not been entitled to restrain the defendant from doing what he was threatening to do. The object of the interlocutory injunction is to protect the plaintiff against injury by violation of his right for which he could not be adequately compensated in damages recoverable in the action if the uncertainty were resolved in his favour at the trial; but the plaintiff's need for such protection must be weighed against the corresponding need of the defendant to be protected against injury resulting from his having been prevented from exercising his own legal rights for which he could not be adequately compensated under the plaintiff's undertaking in damages if the uncertainty were resolved in the defendant's favour at the trial. The court must weigh one need against another and determine where 'the balance of convenience' lies.

In those cases where the legal rights of the parties depend on facts that are in dispute between them, the evidence available to the court at the hearing of the application for an interlocutory injunction is incomplete. It is given on affidavit and has not been tested by oral cross-examination. The purpose sought to be achieved by giving to the court discretion to grant such injunctions would be stultified if the discretion were clogged by a technical rule forbidding its exercise if on that incomplete untested evidence the court evaluated the chances of the plaintiff's ultimate success in the action at 50 per cent or less, but permitting its exercise if the court evaluated his chances at more than 50 per cent.

The notion that it is incumbent on the court to undertake what is in effect a preliminary trial of the action on evidential material different from that on which the actual trial will be conducted, is, I think, of comparatively recent origin, though it can be supported by references in earlier cases to the need to show 'a probability that the plaintiff is entitled to relief' (*Preston v Luck*² per Cotton LJ) or 'a strong prima facie case that the right which he seeks to protect in fact exists' (*Smith v Grigg Ltd*³ per Atkin LJ). These are to be contrasted with expressions in other cases indicating a much less onerous criterion, such as the need to show that there is 'certainly a case to be tried' (*Jones v Pacaya Rubber and Produce*

²(1884) 27 Ch D 497 at 506

³[1924] 1 KB at 659

Co Ltd⁴ per Buckley LJ) which corresponds more closely with what judges generally treated as sufficient to justify their considering the balance of convenience on applications for interlocutory injunctions, at any rate up to the time when I became a member of your Lordships' House.

An attempt had been made to reconcile these apparently differing approaches to the exercise of the discretion by holding that the need to show a probability or a strong prima facie case applied only to the establishment by the plaintiff of his right, and that the lesser burden of showing an arguable case to be tried applied to the alleged violation of that right by the defendant (Conmar Productions Ltd v Bart⁵ per Ungood Thomas J, Harman Pictures NV v Osborne⁶ per Goff J). The suggested distinction between what the plaintiff must establish as respects his right and what he must show as respects its violation did not long survive. It was rejected by the Court of Appeal in Hubbard v Vosper⁷ -- a case in which the plaintiff's entitlement to copyright was undisputed but an injunction was refused despite the apparent weakness of the suggested defence. The court, however, expressly deprecated any attempt to fetter the discretion of the court by laying down any rules which would have the effect of limiting the flexibility of the remedy as a means of achieving the objects that I have indicated above. Nevertheless this authority was treated by Graham J and the Court of Appeal in the instant appeal as leaving intact the supposed rule that the court is not entitled to take any account of the balance of convenience unless it has first been satisfied that if the case went to trial on no other evidence than is before the court at the hearing of the application the plaintiff would be entitled to judgment for a permanent injunction in the same terms as the interlocutory injunction sought.

⁴[1911] 1 KB 445 at 457

⁵[1967] 2 All ER 338 at 339, [1967] 1 WLR 740 at 742

⁶[1967] 2 All ER 324 at 336, [1967] 1 WLR 723 at 738

⁷[1972] 1 All ER 1023, [1972] 2 QB 84

Your Lordships should in my view take this opportunity of declaring that there is no such rule. The use of such expressions as 'a probability', 'a prima facie case', or 'a strong prima facie case' in the context of the exercise of a discretionary power to grant an interlocutory injunction leads to confusion as to the object sought to be achieved by this form of temporary relief. The court no doubt must be satisfied that the claim is not frivolous or vexatious; in other words, that there is a serious question to be tried.

It is no part of the court's function at this stage of the litigation to try to resolve conflicts of evidence on affidavit as to facts on which the claims of either party may ultimately depend nor to decide difficult questions of law which call for detailed argument and mature considerations. These are matters to be dealt with at the trial. One of the reasons for the introduction of the practice of requiring an undertaking as to damages on the grant of an interlocutory injunction was that 'it aided the court in doing that which was its great object, viz abstaining from expressing any opinion upon the merits of the case until the hearing' (Wakefield v Duke of Buccleuch⁸). So unless the material available to the court at the hearing of the application for an interlocutory injunction fails to disclose that the plaintiff has any real prospect of succeeding in his claim for a permanent injunction at the trial, the court should go on to consider whether the balance of convenience lies in favour of granting or refusing the interlocutory relief that is sought.

As to that, the governing principle is that the court should first consider whether if the plaintiff were to succeed at the trial in establishing his right to a permanent injunction he would be adequately compensated by an award of damages for the loss he would have sustained as a result of the defendant's continuing to do what was sought to be enjoined between the time of the application and the time of the trial. If damages in the measure recoverable at common law would be adequate remedy and the defendant would be in a financial position to pay them, no interlocutory injunction should normally be granted, however strong the plaintiff's claim appeared to be at that stage. If, on the other hand, damages would not provide an adequate remedy for the plaintiff in the event of his succeeding at the trial, the court should then

⁸(1865) 12 LT 628 at 629

consider whether, on the contrary hypothesis that the defendant were to succeed at the trial in establishing his right to do that which was sought to be enjoined, he would be adequately compensated under the plaintiff's undertaking as to damages for the loss he would have sustained by being prevented from doing so between the time of the application and the time of the trial. If damages in the measure recoverable under such an undertaking would be an adequate remedy and the plaintiff would be in a financial position to pay them, there would be no reason this ground to refuse an interlocutory injunction.

It is where there is doubt as to the adequacy of the respective remedies in damages available to either party or to both, that the question of balance of convenience arises. It would be unwise to attempt even to list all the various matters which may need to be taken into consideration in deciding where the balance lies, let alone to suggest the relative weight to be attached to them. These will vary from case to case.

Where other factors appear to be evenly balanced it is a counsel of prudence to take such measures as are calculated to preserve the status quo. If the defendant is enjoined temporarily from doing something that he has not done before, the only effect of the interlocutory injunction in the event of his succeeding at the trial is to postpone the date at which he is able to embark on a course of action which he has not previously found it necessary to undertake; whereas to interrupt him in the conduct of an established enterprise would cause much greater inconvenience to him since he would have to start again to establish it in the event of his succeeding at the trial.

Save in the simplest cases, the decision to grant or to refuse an interlocutory injunction will cause to whichever party is unsuccessful on the application some disadvantages which his ultimate success at the trial may show he ought to have been spared and the disadvantages may be such that the recovery of damages to which he would then be entitled either in the action or under the plaintiff's undertaking would not be sufficient to compensate him fully for all of them. The extent to which the disadvantages to each party would be incapable of being compensated in damages in the event of his succeeding at the trial is always a significant factor in assessing where the balance of convenience lies; and if the extent of the

uncompensatable disadvantage to each party would not differ widely, it may not be improper to take into account in tipping the balance the relative strength of each party's case as revealed by the affidavit evidence adduced on the hearing of the application. This, however, should be done only where it is apparent on the facts disclosed by evidence as to which there is no credible dispute that the strength of one party's case is disproportionate to that of the other party. The court is not justified in embarking on anything resembling a trial of the action on conflicting affidavits in order to evaluate the strength of either party's case.

I would reiterate that, in addition to those to which I have referred, there may be many other special factors to be taken into consideration in the particular circumstances of individual cases. The instant appeal affords one example of this.

Returning, therefore, to the instant appeal, it cannot be doubted that the affidavit evidence shows that there are serious questions to be tried. Graham J and the Court of Appeal have already tried the question of infringement on such affidavit evidence as was available and have come to contrary conclusions. Graham J has already also tried the question of invalidity on these affidavits and has come to the conclusion that the defendant's grounds of objection to the patent are unlikely to succeed, so it was clearly incumbent on him and on the Court of Appeal to consider the balance of convenience.

Graham J did so and came to the conclusion that the balance of convenience lay in favour of his exercising his discretion by granting an interlocutory injunction. As patent judge he has unrivalled experience of pharmaceutical patents and the way in which the pharmaceutical industry is carried on. Lacking in this experience, an appellate court should be hesitant to overrule his exercise of his discretion, unless they are satisfied that he has gone wrong in law.

The factors which he took into consideration, and in my view properly, were that Ethicon's sutures XLG were not yet on the market; so they had no business which would be brought to a stop by the injunction; no factories would be closed and no workpeople would be thrown out of work. They held a dominant position in the United Kingdom market for absorbable surgical sutures and adopted an aggressive sales policy. Cyanamid on the other hand were in the course of establishing a growing market in PHAE

surgical sutures which competed with the natural catgut sutures marketed by Ethicon. If Ethicon were entitled also to establish themselves in the market for PHAE absorbable surgical sutures until the action is tried, which may not be for two or three years yet, and possibly thereafter until the case is finally disposed of on appeal, Cyanamid, even though ultimately successful in proving infringement, would have lost its chance of continuing to increase its share in the total market in absorbable surgical sutures which the continuation of an uninterrupted monopoly of PHAE sutures would have gained for it by the time of the expiry of the patent in 1980. It is notorious that new pharmaceutical products used exclusively by doctors or available only on prescription take a long time to become established in the market, that much of the benefit of the monopoly granted by the patent derives from the fact that the patented product is given the opportunity of becoming established and this benefit continues to be reaped after the patent has expired.

In addition there was a special factor to which Graham J attached importance. This was that, once doctors and patients had got used to Ethicon's product XLG in the period prior to the trial, it might well be commercially impracticable for Cyanamid to deprive the public of it by insisting on a permanent injunction at the trial, owing to the damaging effect which this would have on its goodwill in this specialised market and thus on the sale of its other pharmaceutical products.

I can see no ground for interfering in the learned judge's assessment of the balance of convenience or for interfering with the discretion that he exercised by granting the injunction. In view of the fact that there are serious questions to be tried on which the available evidence is incomplete, conflicting and untested, to express

an opinion now as to the prospects of success of either party would only be embarrassing to the judge who will have eventually to try the case. The likelihood of such embarrassment provides an additional reason for not adopting the course that both Graham J and the Court of Appeal thought they were bound to follow, of dealing with the existing evidence in detail and giving reasoned assessments of their views as to the relative strengths of each party's cases.

I would allow the appeal and restore the order of Graham J.

VISCOUNT DILHORNE. My Lords, I have had the advantage of reading the speech of my noble and learned friend, Lord Diplock. I agree with it and that this appeal should be allowed and the order of Graham J restored.

LORD CROSS OF CHELSEA. My Lords, for the reasons given by my noble and learned friend Lord Diplock in his speech, which I have had the advantage of reading in draft, I would allow this appeal.

LORD SALMON. My Lords, I agree with the opinion of my noble and learned friend Lord Diplock, and for the reasons he gives I would allow the appeal and restore the order of Graham J.

LORD EDMUND-DAVIES. My Lords, for the reasons given by my noble and learned friend, Lord Diplock, I would also allow this appeal.

DISPOSITION:
Appeal allowed.

Catnic Components Ltd. and Another v. Hill & Smith Ltd.

In the High Court of Justice--Patents Court

Ch D (Patents Ct)

Before: Mr. Justice Falconer

26, 27, 28, 31 January, 1, 2, 3, 4 February and 16 March 1983

Falconer J.:

This enquiry as to damages is a further stage of the proceedings in this consolidated action and counterclaim in which the plaintiffs sued the defendants, *Inter alia*, for infringement of patent No. 1,298,798, the subject-matter of which is an improved form of lintel for use over apertures in cavity walls.

The action was tried before Whitford J. early in 1978. Although he dismissed a claim for alleged infringement of copyright in certain drawings of the plaintiffs, he held the patent valid and infringed by two of the defendants' constructions of lintel denoted D.H.2 and D.H.4 respectively and dismissed the counterclaim for revocation of the patent. By his order dated 16 February 1978, he granted an injunction restraining infringement of the patent and ordered an enquiry as to damages for its infringement. The defendants appealed against that part of the judgment of Whitford J. whereby he held that the defendants' lintel D.H.4 infringed the patent and that appeal was successful, the Court of Appeal setting aside such part of Whitford J.'s order as related to D.H. 4. On appeal by the plaintiffs to the House of Lords, the House reversed that decision of the Court of Appeal and restored the order of Whitford J. The case is reported fully in [1982] R.P.C. 183.

This enquiry is that ordered by Whitford J. in his order dated 16 February 1978, in the following terms:

"That the following enquiry be made that is to say (1) An enquiry as to what damages if any have been sustained by the plaintiffs by reason of any infringement by the defendants of the said letters patent and it is ordered that the defendants do pay to the plaintiffs any sum found due on making the said enquiry."

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I should first refer to the principles upon which I have to approach the assessment of the plaintiffs claim to damages. Of course, in a case where the plaintiff patentee has granted licences at a rate of royalty on the licensed articles it is "almost a rule of law," to use the words of Fletcher Moulton L.J. in *Meters Ltd. v. Metropolitan Gas Meters Ltd.* (1911) 28 R.P.C. 157 at 164, to assess the damages as the amount the defendant infringer would have had to pay for the number of infringing articles at that royalty rate had he had a licence. But this is not such a case. The plaintiffs have never granted any licence under their patent and have exploited their patent by manufacturing and marketing the patented lintels themselves. They are market leaders in the field, not only of box type steel lintels but of steel lintels generally (see Exhibits H.S. 11 and A.J.P. 1) and have ample manufacturing capacity. The principles upon which the assessment of the damages is to be approached in such a case have been stated in a number of authorities.

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In the *General Tire Case* [1976] R.P.C. 197 Lord Wilberforce, who referred, *inter alia*, to *The United Horse Shoe and Nail and Meters cases* in his speech, stated, at p. 212:

"As in the case of any other tort (leaving aside cases where exemplary damages can be given) the object of damages is to compensate for loss or injury. The general rule at any rate in relation to 'economic' torts is that the measure of damages is to be, so far as possible, that sum of money which will put the injured party in the same position as he would have been in if he had not sustained the wrong (*Livingstone v. Rawyards Coal Co.* 5 A.C. 25 at 39 per Lord Blackburn).

In the case of infringement of a patent, an alternative remedy at the option of the plaintiff exists by way of an account of profits made by the infringer--see *Patents Act 1949, s.60*. The respondents did not elect to claim an account of profits: their claim was only for damages. There are two essential principles in valuing that claim: first, that the plaintiffs have the burden of proving their loss: second, that the defendants being wrongdoers, damages should be liberally assessed but that the object is to compensate

the plaintiffs and not punish the defendants. (Pneumatic Tyre Co. Ltd. v. Puncture Proof Pneumatic Tyre Co. Ltd. (1899) 16 R.P.C. 209 at 215.)

These elemental principles have been applied in numerous cases of infringements of patents. Naturally their application varies from case to case. Reported authorities, many of which were cited in argument, may be useful as illustrations of judicial reasoning, but are capable of misleading if decisions on a particular set of facts and observations in judgments leading up to such decisions are later relied upon as establishing a rule of law. Nevertheless I think it useful to refer to some of the main groups of reported cases which exemplify the approaches of courts to typical situations.

1. Many patents of inventions belong to manufacturers, who exploit the invention to make articles or products which they sell at a profit. The benefit of the invention in such case is realised through the sale of the article or product. In these cases, if the invention is infringed, the effect of the infringement will be to divert sales from the owner of the patent to the infringer. The measure of damages will then normally be the profit which would have been realised by the owner of the patent if the sales had been made by him (see *The United Horse-Shoe and Nail Co. Ltd. v. John Stewart & Co.*, 13 A.C. 401). An example of this is *Boyd v. the Tootal Broadhurst Lee Co.* (1894) 11 R.P.C. 175 where the plaintiff manufacturers proved that a profit of 7/- per spindle would have been made, and settlements of litigation for lesser rates were discarded.

2. Other patents of invention are exploited through the granting of licences for royalty payments. In these cases, if an infringer uses the invention without a licence, the measure of the damages he must pay will be the sums which he would have paid by way of royalty if instead of acting illegally, he had acted legally. The problem, which is that of the present case--the respondents not being manufacturers in the United Kingdom--is to establish the amount of such royalty."

Leaving aside for the moment, the claim to exemplary damages, I understand from those authorities that I have to approach the assessment of the plaintiffs' damage--

(a) as a jury sort of question, as "a matter which is to be decided in the rough--doing the best one can, not attempting or professing to be

minutely accurate--having regard to all the circumstances of the case, and saying what upon the whole is the fair thing to do";

(b) assessing the damages liberally but with the object of compensating the plaintiffs for the loss suffered by them by reason of the defendants' sales of the infringing lintels, as a direct and natural consequence of those infringing sales; and

(c) upon the basis that the sale of each infringing lintel was an actionable wrong for which the plaintiffs are entitled to be compensated;

(d) it being immaterial that in the case of any such sale the defendants could have sold a non-infringing lintel instead of the infringing one.

It follows from (c) that if and in so far as any infringing sale should be held not to have been a sale the plaintiffs would have made and, therefore, not compensatable on a loss of profit basis, it should be compensated on a notional royalty basis in the manner propounded by *Fletcher Moulton L.J.* in the *Meters* case.

I now consider the plaintiffs' first head of damages, loss of profit in respect of sales of infringing lintels made by the defendants, being sales which the plaintiffs say they could and would have made with their patented lintels.

On this part of the case I have to decide, treating the matter as a jury question, whether, on the balance of probabilities, all or some of the defendants' sales of their infringing lintels were sales which, but for the defendants' infringement, the plaintiffs would have made with their patented lintels and if some, but not all, how many. If I find that all or some of such sales would have been made by the plaintiffs, Mr. Rees and Mr. Hart, the expert accountant witnesses respectively for the plaintiffs and the defendants, are agreed that the loss of profits should be calculated as a percentage contribution on the plaintiffs' gross selling value (g.s.v.), adjusted in a certain respect, of the lost sales.

Considering the position of the plaintiffs over the material periods--they they had developed the market for box steel lintels with their patented lintel which they introduced to the market in 1969 and at all material times were, by a very large margin, the market leaders in box steel lintels, and, indeed, in all steel lintels (see Exhibit H.S.11). Thus their share of the box steel lintel market in 1976, during the first infringing period, was 95 per cent. and in 1980, during the

second infringing period, was 85.3 per cent. (see Exhibit A.J.P.1.). At all material times the plaintiffs had adequate production capacity to have manufactured the number of infringing lintels sold by the defendants. Thus the 10,183 lintels of the first infringing period would have accounted for some 0.59 per cent. of the plaintiffs' production capacity over that period and the 49,560 lintels of the second infringing period would have accounted for some 2.1 per cent. of their production capacity over that period. The plaintiffs would have had ample stocks of the patented lintels during both periods to meet their own sales demand and the quantities of the infringing lintels sold, save that for a period of some three months from the end of December 1979, to the end of March 1980, the plaintiffs were short of stocks of the large lintels described as C.N.8, due to the effect of a strike in the steel industry. I will take that shortage into account as a special factor hereinafter. Although the plaintiffs only sell their lintels through builders' merchants, they had over the material period a network of stockists throughout the United Kingdom; in 1973 they had some 600 such stockists and that number was being expanded during the material period and subsequently. It was common ground that the plaintiffs have always been vigorously active in marketing their lintels.

Turning now to the defendants, prior to commencing to manufacture and sell the infringing lintels in 1975 the defendants had not been engaged in the manufacture or sale of lintels at all--it was a new field for them which they chose to enter with a construction of box lintel which infringed the plaintiffs' patent. That is material to bear in mind. Cf. the position of the defendants in the Meters case and the observations of Eve J. in that case at first instance reported in (1910) 27 R.P.C. (at p. 731, lines 43-51). He said:

"It is also material to bear in mind that the defendants did not come into the market for the first time with the infringements. For many years before they sold any infringing meters they had been doing a very large business with very influential customers in prepayment meters, and, in estimating the orders which would have been transferred from them to the plaintiffs, had no infringement taken place, the advantages which the defendants' goodwill gave them, and the connection which they had established with the purchasers of the class I have mentioned, cannot be lost sight of."

In this case the defendants started from scratch in the steel lintel market without the benefit of any previous goodwill or previous connection with customers in that market and they launched themselves into that market with a construction of box lintel which infringes the patent of the market leader. Mr. Hodgetts, the defendants' managing director, agreed in cross-examination that the defendants' object was to win a share of the lintel market "at the expense of Catnic--and other people's expense."

Mr. Peach, the plaintiffs' marketing director, stated in paragraph 12 of his affidavit that in 1975-76 he discovered that the defendants' representatives were visiting many of the plaintiffs' stockists with the objective of trying to obtain business from them--a statement not challenged in cross-examination. As to whether the defendants succeeded in obtaining a share in the lintel market at the expense of Catnic, in 1975 when the defendants entered the steel box lintel market there were a number of other competitors in the field but in a small way compared with the plaintiffs' share of the market. In his Exhibit H.S.11 Mr. Hodgetts summarised his estimates of the market shares of the plaintiffs and their competitors in the market in box steel lintels over the years 1976-81 and also the market shares of manufacturers of other types of steel lintels. In that Exhibit--

"BAT" refers to Bat Lintels Ltd. (started in 1975),

"ASSET" refers to Asset Building Components Ltd. (started in 1974),

"CLARKSTEEL" refers to Clarksteel Limited (started in 1975).

From H.S.11 Mr. Peach has calculated percentage market shares and these are set out in his Exhibit A.J.P.1. From H.S.11 and A.J.P.1 it can be seen that the market shares of those other competitors of the plaintiffs were very small indeed in 1976. Looking at A.J.P.1, it will be seen that from 1976-80 inclusive, which, apart from November and December 1975, includes the two infringing periods, the plaintiffs' share of the box lintel market declined from 95 per cent. to 85.3 per cent., a decline of 9.7 per cent., while the defendants' share increased from 0.5 per cent. to 4 per cent. (a rise of 3.5 per cent.), BAT's from 1.4 per cent. to 6.8 per cent. (a rise of 4.9 per cent.), ASSET's from 1.8 per cent. to 3.8 per cent. (a rise of 2.0 per cent.) and CLARKSTEEL's declined from 1.3 per cent. to 0.6 per cent. (a fall of 0.7 per cent.). It is a fair

inference, therefore, that the defendants' sales over those years were made "at the expense of Catnic," as indeed were those of BAT and ASSET, since the decline in CLARKSTEEL's share was insignificant.

I should mention that in between the two infringing periods, i.e. from February 1977 to November 1979, the defendants were selling a construction of box lintel referred to as "Bainbridge"--a construction originally marketed in 1974-75 by Bainbridge Bros. (Engineers) Ltd. and held not to infringe the plaintiffs' patent by Graham J. in an action by Catnic against that company. Since the judgment of the House of Lords in this action the plaintiffs have instituted a fresh action against the present defendants in respect of their manufacture and sale of Bainbridge-type lintels but that is not a claim in this action. By 1976 Bainbridge Bros. (Engineers) Ltd. had apparently ceased to trade in steel lintels--see H.S.11.

For the plaintiffs Mr. Bateson submitted that it would be consistent with the attitude of the law to an infringer for the law to assume that the plaintiffs would have made, with their patented lintels, those sales made by the defendants with the infringing lintels unless and in so far as the defendants proved the contrary. In a case such as this, where the plaintiffs had been established for a number of years as the market leaders with their patented construction, having available ample production capacity and stocks (except for the temporary steel strike shortage in one part of their range to which I have referred), but never having granted any licence under their patent, and where defendants not previously in business in this field at all, entered the market with the object of doing so at the expense of the plaintiffs and using an infringing version of the plaintiffs' patented construction, in my judgment that is a proper approach for the court to adopt. (See Lord Wilberforce's first group of cases in the passage I have cited from the General Tire case.) Mr. Bateson accepted that if an infringer could show that his customer would have dealt with a lawful competitor of the plaintiffs that would have the effect of reducing the number of sales in respect of which the plaintiffs could claim loss of profit. I would just add to that that a defendant infringer might be able to establish that a plaintiff patentee would not have made an infringing sale for some other reason.

The defendants contended that the plaintiffs have failed completely to prove their case that they have suffered damage through loss of

profits. This contention was based on two arguments as I understand it, namely,

(i) if the defendants had not made and sold infringing lintels they would have made and sold non-infringing lintels and retained their share of the market;

(ii) if the defendants had not supplied their customers with lintels, lintels other than the plaintiffs' lintels would have been bought by the customers, i.e. lintels of other competitors of the plaintiffs.

I have to say at once, that in my judgment the first of those arguments (i.e. argument (i)) is not open to the defendants in law: see principle (d) above. The United Horse Shoe and Nail Company Limited case--see especially the passages I have already cited from the speeches in the House of Lords-- is authority for the proposition that an infringer is barred from defeating a plaintiff patentee's claim for damages for loss of profits by saying: "Yes, I infringed but I could have taken this market from you by not infringing." Much of Mr. Gratwick's address on the "loss of profits" part of the claim was devoted to, and much of the defendants' evidence directed to, this argument, but as in my view the argument is wrong in law the evidence directed to it is irrelevant and I need not consider it further.

However, I should refer briefly to one topic which was developed at some length by the defendants in support of that argument, namely, the attractiveness of the cross-section profile of the patented lintel compared with the profiles of competing box lintels. (The various profiles are to be seen in the drawings of Exhibit B.R.5.) The defendants, of course, sold the infringing D.H.4 lintel (an infringing version of the patented construction) in the two infringing periods; in between those periods they sold a "Bainbridge" lintel (as already mentioned) and it is common ground that from December 1980, they sold their N.D.16 lintel. Basing himself on statements in the affidavits of certain of the defendants' trade witnesses to the effect that the profile of the box lintel supplied to them by the defendants, whether that of D.H.4, "Bainbridge" or N.D.16 was irrelevant, Mr. Gratwick submitted that it had not appeared that at any time the profile of the box lintel supplied by the defendants mattered to their customers or for that matter that the Catnic profile had contributed to the plaintiffs' sales in comparison with other profiles. As to the last-mentioned point, it is negatived by the

massive share of the box lintel market held at all material times by the plaintiffs as shown by the defendants' Exhibit H.S.11 and plaintiffs' Exhibit A.J.P.1 derived therefrom. As to the first part of that submission, that the profile of box lintel supplied by the defendants had not mattered, if that be right it is difficult to understand why the defendants reverted to their D.H.4 lintel in November 1979, when they could have used their N.D.16 lintel which the plaintiffs had conceded at the trial in this action did not infringe. But in any case, I do not accept the submission because examination of the defendants' figures of box lintel sales presents a different picture. Those figures are found in Appendix I to the report of Mr. Hart, the defendants' expert accountant witness.

(i) In the 12 months November 1978-October 1979 (inclusive) they were selling "Bainbridge" and sold a total of 30,145, i.e. a monthly average of 2,500;

(ii) In the 12 months November 1979-October 1980 (inclusive) they were selling D.H.4 and sold a total of 39,140, i.e. a monthly average of 3,260;

(iii) In the 12 months December 1980-November 1981 (inclusive) they were selling N.D.16 and sold a total of 36,000, i.e. a monthly average of 3,000.

These figures show that the patented profile (in the infringing D.H.4 lintel) was the most popular. Indeed, if the 12 months December 1979-November 1980 (inclusive) be taken so as to include the large sales of D.H.4 in November 1980, the total in that 12 months of D.H.4 was 56,817, giving a monthly average of 4,734.

Before considering what, if any, of the defendants' sales in the infringing period might have gone to legitimate lintel competitors of the plaintiffs, I must deal with certain factors which the defendants contended would have deterred their box lintel customers from purchasing from the plaintiffs.

The first was the effect of the steel strike, which lasted some three months from the end of December 1979, to the end of March 1980, and to which I have already referred and which caused the plaintiffs to be short of stocks of their large-sized lintels denoted as C.N.8. This is dealt with in paragraph 37 of Mr. Hodgetts' second affidavit and in paragraphs 31, 32 and 33 of Mr. Peach's affidavit and was also dealt with by Mr. Robinson in cross-examination. As appears from the evidence, as a substitute for

the large C.N.8 lintels the plaintiffs had purchased a stock of "Birtley" lintels, an "open-back" type, so as to have a large size lintel available for their customers but these were unsatisfactory and further deliveries after 1 April 1980, were cancelled following the end of the strike. From the evidence I conclude that the plaintiffs would probably have had difficulty in supplying their C.N.8 lintels in the three-month strike period. Looking at the Report by the plaintiffs' expert accountant, Mr. Rees, and in particular Schedule A3(b) thereto, I consider it reasonable to infer that for some three months in that 13-month infringing period the plaintiffs would not have sold their C.N.8 type lintels instead sales referred to in Schedule A3(b). Reducing the total in Schedule A3(b) of the defendants' sales of comparable size lintels--in round figures some 25 per cent. of lintel sales sizes covered by the C.N.8 type in the whole period and it would be reasonable to deduct such 25 per cent. from the sales referred to in Schedule A3(b). Reducing the total in Schedule A3(b) by 25 per cent. leaves a total of £229,666.23 in that Schedule. Although this adjustment reduces the total gross sales value of lost C.N.8 sales by £76,555.42, the reduction represents sales of infringing lintels which would not have been sales made by the plaintiffs and consequently are infringing sales in respect of which damages are payable on the basis of a notional royalty. I deal with that later in this judgment.

The next factor, which the defendants relied on as a matter which they contended would have deterred their customers from purchasing the plaintiffs' box lintels, concerned the nature of the galvanising treatment given respectively to the plaintiffs' and the defendants' lintels, such treatment being designed, of course, to protect the steel metal from corrosion. The plaintiffs' lintels are made from zinc-coated sheet steel whereas the defendants' lintels are made from uncoated steel and are galvanised after fabrication, i.e. the plaintiffs' lintels are "pre-galvanised" and the defendants' are "post-galvanised." The plaintiffs' lintels are, however, coated with a chemically inert material as their primary corrosion protection after their fabrication has been completed. There is a conflict of views in the evidence as to the respective merits of pre-galvanising and post-galvanising of steel box lintels. Mr. Robinson explained in his second affidavit that he was employed from 1959 to 1968 by Richard

Thomas and Baldwins (now part of British Steel Corporation) and during 1966 to 1968 worked in a team in that company developing their gauge steel structures, work which included a two-year study concerned with corrosion protection. He explained that the conclusion of the study was that zinc coating applied at the galvanising stage should be regarded, not as a corrosion protection but as a sacrificial substrate which will sacrifice by electrochemical reaction over cut, i.e. uncoated, edges of the steel, exposed during fabrication and the primary conversion protection should be a chemically inert coating. It was in the light of this knowledge and expertise that the plaintiffs adopted pre-galvanising with a coating of chemically inert material after fabrication of the lintels. Mr. Robinson believes that the corrosion protection of the Catnic lintel is superior to the post-galvanising protection of the defendants' lintels. On the other hand the effect of Mr. Hodgetts' evidence, in his second affidavit, was that from the corrosion aspect a post-galvanised lintel is superior to a pre-galvanised lintel and he was supported in that view by the evidence of Mr. Gordon, Technical Policy Architect of the Greater London Council ("G.L.C.") and Mr. Hackett, a quantity and building construction surveyor engaged in and with some 30 years' experience of the building industry. But both Mr. Gordon and Mr. Hackett in expressing their preference for postgalvanised lintels appear to have overlooked the post-fabrication corrosion protection coating given to the plaintiffs' lintels. I must add as regards Mr. Gordon, that were it necessary for present purposes to decide this technical issue I could not place any reliance on the evidence of Mr. Gordon. I formed the view that he had an animus against the plaintiffs and was not an impartial witness. Moreover, powerful testimony to the effectiveness of the corrosion protection given to Catnic lintels was given in the evidence of Mr. Walker, a very distinguished architect, who from 1970-76 was Chief Architect and Planner of the Milton Keynes City project in which project several thousands of buildings were fitted with Catnic lintels. However, it is no part of my task on this enquiry to decide this technical issue as to the superiority or otherwise of the defendants' post-galvanising of their lintels over the plaintiffs' pre-galvanising with a post-fabrication inert chemical coating. I am only concerned as to how far customers who purchased infringing lintels from the defendants' adduced have been

deterred from purchasing the plaintiffs' lintels because the latter were not post-galvanised. As to that, the defendants' adduced evidence from seven trade witnesses engaged in the builders' merchants field, of which four gave as one reason for stocking the defendants' lintels that they were post-galvanised; two gave no evidence directed to this aspect; and one (Elston), whose company stocked ASSET lintels, which, it is common ground have always been pre-galvanised, agreed in cross-examination that his company had never had any trouble with pre-galvanising in ASSET lintels. The four trade customers of the defendants represented by those four witnesses plainly form only a small proportion of all the defendants' trade customers for there are no less than 33 trade customers of the defendants listed in the further and better particulars of the plaintiffs' statement of case.

Mr. Peach, the plaintiffs' marketing director, testified that he had never found pre- or post-galvanising to be an important factor in selling lintels. He agreed a "few people" hold the view that post-galvanising is better but he pointed out that the plaintiffs' lintels had been submitted to every test to obtain the necessary approvals and certificates of performance, in particular the Agreement Certificate and when, in the early 1970s the plaintiffs had encountered customers specifying post-galvanising, they had invariably been satisfied with the Agreement Certificate as evidence of adequate protection. He added that post-galvanising is only rarely asked for now. However, looking at A.J.P.1 and bearing in mind that BAT and ASSET lintels were pre-galvanised (as is common ground) as well as the plaintiffs' lintels, it is obvious that by far the great majority of purchasers of box lintels were satisfied with pre-galvanised ones. On the whole, I conclude and find that the fact that the plaintiffs' lintels were not post-galvanised would not have deterred any substantial number of the customers who purchased infringing lintels from the defendants from purchasing the plaintiffs' lintels.

Another factor which, it was argued for the defendants, although somewhat faintly, would have deterred the defendants' customers for the infringing lintels from purchasing the plaintiffs' Catnic lintels, concerned heat insulation. The defendants claimed that their lintels "are offered" with a thermal insulation filling inside the box portion. I do not accept that the infringing lintels were always so provided. In the course of the

hearing I was supplied with copies of three invoices relating to three of the particularised sales listed in the further and better particulars of the plaintiffs' case (those relating to Messrs. McArthur & Co. Ltd., Messrs. Alco Builders' Merchants Ltd. and Mr. Wm. Barber, Junior) and as appears therefrom all related to "Unfoamed lintels." The plaintiffs' evidence was that good building practice requires insulation to be fitted "on site," and, in any case, the plaintiffs supply their lintels with a foam filling if requested by the customer. Moreover, it is plain that any steel box lintel will, when in position, provide a cold bridge which, as a matter of elementary physics, foam filling inside the box will do little or nothing to alleviate. I do not consider there is anything of substance in this insulation factor at all.

Although in the defendants' evidence a point was made that an increase in the prices of the plaintiffs' box lintels in April 1980, had led to an increase in the sales of the defendants' lintels, no argument directed to this point was addressed to me by Mr. Gratwick and I say no more about it.

Reverting now to the question of what, if any, of the defendants' infringing sales might have gone to legitimate box lintel competitors of the plaintiffs, there is no direct evidence that, if the defendants' customers had not bought infringing lintels from the defendants, all or any of those customers would have bought all or any lintels from such legitimate competitors of the plaintiffs instead. As to the plaintiffs' evidence, Mr. Robinson, the plaintiffs' technical director and the inventor of the patented lintel, stated his belief, with reasons, that the assumption made in the report of the plaintiffs' expert accountant, Mr. Rees (the "Rees Report") that, but for the defendants' infringing sales the plaintiffs would have made all such sales themselves. I have already indicated his reasons earlier in this judgment, namely, the plaintiffs' pioneering and developing of the box lintel, their ample production capacity at all material times and ample stocks (except for the large C.N.8 lintels in the steel strike period). In cross-examination Mr. Robinson agreed that the plaintiffs had advertised extensively and had had a good marketing policy which Mr. Gratwick referred to as "aggressive." In cross-examination as to the position of a small manufacturer as competitor seeking to market a non-infringing lintel, the effect of his evidence was that it was possible such a competitor could sell £5 million worth of non-infringing box lintels with sufficient

marketing effort and advertising, depending on the product. Mr. Peach, the plaintiffs' marketing director, however, after pointing out that the defendants' lintel business was founded upon sales of infringing lintels, stated in paragraph 13 of his affidavit:

"In 1976 Catnic's share of the steel lintel market is given as 57.6 per cent. and in 1980, 54.6 per cent. Therefore, in my opinion, Catnic would have made at minimum, approximately 60 per cent. of the sales made by the defendants and the proportion would, in all probability, have been substantially higher due to the preference shown by the building industry for the box type lintel (as against open back or inverted 'T') as stated in paragraph 5 above."

Mr. Gratwick placed some emphasis on that figure of 60 per cent., but it is to be observed that it was based on the figures for the plaintiffs' share of the total steel lintel market of 57.6 per cent. in 1976 and 54.6 per cent. in 1980. However, in those years the plaintiffs' share of the box lintel market was 95 per cent. and 85.3 per cent. respectively and the figures in the defendants' Exhibit H.S.11 amply confirm Mr. Peach in his view as to the building industry's preference for the box type lintel.

BAT, ASSET and CLARKSTEEL were the legitimate box lintel competitors of the plaintiffs over the two infringing periods. Taking from Exhibit A.J.P.1 the figure for 1976, which year covers the greater part of the first infringing period, BAT, ASSET and CLARKSTEEL together had 4.5 per cent. of the box lintel market against the plaintiffs' 95 per cent. It seems to me on the balance of probabilities that those competitors might reasonably have been expected to have obtained about the same proportion, say 5 per cent. in round figures, of the defendants' sales in that first period with the plaintiffs taking the remainder, i.e. 95 per cent. Taking from Exhibit A.J.P.1 the figures for 1980, which covered the greater part of the second infringing period, those three legitimate competitors together had 10.7 per cent. of the box lintel market against the plaintiffs 85.3 per cent. Again, it seems to me on the balance of probabilities that in round figures those competitors might have been expected to obtain 11 per cent. of the defendants' infringing sales with the plaintiffs taking the rest, i.e. 89 per cent., except during the period of the steel strike for which allowance has to be made as I have indicated for the plaintiffs' shortage of their C.N.8 lintels.

Looking at the matter, therefore, as a jury question and doing the best I can on the materials before me, in my judgment a liberal but fair assessment of the plaintiffs' loss of sales will be arrived at by deducting 5 per cent. from the gross loss of sales for the first infringing period as set out in paragraph 3(iii) of the Rees Report and 11 per cent. from the gross loss of sales in the second infringing period as set out in paragraph 3(ii) of that report after making the steel strike deduction therefrom to which I have already referred. Accordingly, the lost contribution--

(a) for the first infringing period will be: 95 per cent. of £25,168, i.e. £23,910,

(b) for the second infringing period: 24.6 per cent. (the agreed contribution rate) of 89 per cent. of the gross sales value after the steel strike deduction, i.e. $0.246 \times 0.89 \times £(812,372-76,555)$, i.e. £ 161,100;

making a total in respect of both periods of £185,010, say, £185,000. That sum is the plaintiffs' damages under Head (1).

It is convenient now to deal with the claim to damages under Head (3), that is to say, damages on the basis of a notional royalty in respect of those infringing sales not included in those which I have held to be lost sales of the plaintiffs compensated under Head (1). Under this head damages fall to be assessed in respect of--

(i) infringing sales discounted because of the steel strike;

(ii) infringing sales discounted in the first period as those which legitimate competitors would probably have made (5 per cent. of the whole);

(iii) infringing sales discounted in the second period as those which legitimate competitors would probably have made (11 per cent. of the whole after the steel strike deduction).

The difficulty in this case lies in deciding what should be the rate of the notional royalty, for this is a case where the plaintiffs have never granted any licence under their patent--it has been exploited by them by their own manufacture and sale of the patented lintel--so that there is no "going rate." As appears from the judgment of Fletcher Moulton L.J. in the Meters case, in the passage which I have already cited, and which was cited by Lord Wilberforce in the General Tire case, I have to consider "what would have been the price which . . . could have reasonably been charged" for the plaintiffs' permission to use the patented invention as the defendants

did. In his opinion in the General Tire case Lord Salmon (at p.225) thought that it followed from Fletcher Moulton L.J.'s judgment that in a case where there is no established market rate the assessment must be on the basis of what royalty a willing licensee would have been prepared to pay and a willing licensor to accept.

Considering the plaintiffs' position as a notional licensor in such assessment, the plaintiffs had pioneered and developed the box lintel market with their patented construction and held the major share of that market with 95 per cent. of it in the first infringing period and 85 per cent. in the second. They had ample production capacity and had no need to license anyone. The plaintiffs' policy as to any possible licensing was described by Mr. Robinson in paragraph 21 of his first affidavit thus:

"I consider that the patented lintels have been revolutionary in the building industry. Catnic have experienced a good growth in market share and I believe that they themselves would have taken any available part of that market. The company's approach has, therefore, been not to enter into a manufacturing license under the patent in the U.K. or indeed under any of its counterparts in territories outside the United Kingdom, unless the return would be sufficiently substantial."

Mr. Peach, the plaintiffs' marketing director, made it clear in cross-examination that only if he could have a guarantee that a proposed licensee would not impinge on the plaintiffs' market would he be prepared to consider a royalty. In his first affidavit (paragraph 23) Mr. Robinson explained that he suggested a royalty of 20 per cent. on gross sales value as appropriate for the purpose of the enquiry and in cross-examination he explained that the plaintiffs would not wish to grant a licence under their rate of profit. Now, it is common ground between the expert accountants for the plaintiffs and the defendants that the "contribution" (i.e. "mean profit earned before deduction of fixed costs"--see Rees Report, paragraph 3(ii)(c)) made by the patented construction was 24.6 per cent. and in cross-examination Mr. Rees stated that the contribution the plaintiffs got set the figure of royalty at 20 per cent. In re-examination he explained that in considering rates of royalty, one has to have regard to market share--if a potential licensor has a high market share he will demand a royalty which will not reduce that market share but on the other hand if the proposed licensor has a large market share that

might make it worthwhile for a licensee to pay a high royalty so as to be able to attack that large market share.

Mr. Bateson submitted I should approach the matter of assessing the rate of royalty on the basis of a reasonable reward to the plaintiffs and that a reasonable reward for the plaintiffs would be a rate of royalty which would ensure that the plaintiffs did not lose any profits from allowing a licensed competitor into their market. He pointed out that the plaintiffs dominated the market with their 85 per cent. share (I would add, indeed a 95 per cent. share in the first infringing period) and that the plaintiffs, therefore, would have been entitled to say to the defendants, "If you want to come into the market with our patented construction" ("on our back" as Mr. Bateson put it) "you must pay for it." He submitted that having regard to the sort of contribution made by the patented construction to the plaintiffs' profits, the figure of 20 per cent. on gross sales as the rate of royalty would be right otherwise the plaintiffs would have been taking the step of letting into their market a competitor who would inevitably have cut their sales in view of their dominating share of the market and that without a compensating royalty.

I see the force of that argument, but not only would the defendants not have been willing to agree to such a royalty it is plain that they could not have agreed to do so. In cross-examination Mr. Robinson agreed that if the plaintiffs had to pay a royalty of 20 per cent. they would have to raise their prices by 20 per cent. and that would have a devastating effect on their sales.

As to the defendants' position as notional licensee, their accountants in their report, in paragraphs 9.11 and 9.12, put forward 2 per cent. on gross sales as the maximum royalty the defendants could have afforded to pay, 3 per cent. if calculated on net selling prices. This figure was arrived at by comparing the cost of making the infringing D.H.4 lintels with the cost of making the non-infringing N.D.16 lintels, it being calculated that the lower cost of the infringing D.H.4 lintels produced an average 5 per cent. increased contribution to the defendants' profits. A royalty of 2 per cent. on gross sales would have made a 3 per cent. increase in contribution from the use of D.H.4 lintels and thus have made worthwhile a licence on such terms. In my judgment, however, that calculation is based on a wrong approach. In the United Horse Shoe and Nail Company Limited case to which I referred earlier the House of

Lords held that in assessing damages for infringement on loss of sales basis it is beside the point that the defendant could have arrived at the same result by lawful means, i.e. without infringing the plaintiff's rights by selling a non-infringing article, and it seems to me that the same principle must apply in determining what is a proper rate of royalty to be paid by an infringer when assessing damages on the basis of a notional royalty in a case where there has been no actual licensing of the patent. Both Mr. Robinson and Mr. Rees, the plaintiffs' accountant, were cross-examined upon the basis that the defendants as potential licensees had available to them alternative products in the N.D. 16 and Bainbridge lintels which the defendants could equally well have supplied, but that by using the D.H.4 infringing lintel a cost saving of 5 per cent. could be effected. But, for the reason I have just stated, in my judgment that line of questioning was on a wholly wrong approach and their answers to that line of questioning afford me no assistance. What is very plain from Mr. Robinson's answers in cross-examination was that under no circumstances would the plaintiffs have considered granting a licence at the sort of rate of royalty the defendants contended for, i.e. 2 per cent. or 2 1/2 per cent. on gross sales value. Mr. Gratwick submitted that is the sort of royalty the defendants would have been willing to pay, but of course, that sort of figure was based, as I have indicated, entirely on the estimated cost saving to the defendants of the infringing D.H.4 lintel over the alternative N.D.16.

As I see it, I have to look at the potential licensee's position, not as a manufacturer already established in the market having an alternative product but who could effect some small cost of saving by adopting the patented construction, but on the footing of a potential licensee not as yet in the lintel market at all and seeking a licence to use the patented construction which has given the market leader an 85 per cent. share of the market. It seems to me that the rate of royalty which would have been reasonable for the defendants to pay must reflect that advantage of entering the market in competition with the patentees, who were the market leaders, by using the highly successful patented construction. On the other hand, the plaintiffs' figure of 20 per cent. of gross sales value was, on Mr. Robinson's evidence in cross-examination, clearly not a possible one from a licensee's point of view.

Looking at the matter as a jury sort of question I think it would be fair and reasonable to fix the notional royalty at which damages is to be assessed in respect of those infringing sales not accounted as lost sales of the plaintiffs at 10 per cent. of gross sales value. It is not in dispute that income tax at the standard rate of 30 per cent. is normally deducted at source from patent royalties (see Rees Report, paragraph 5(ii) so that the net royalty will be 7 per cent. Accordingly, the total calculated at 7 per cent. of the gross sales values of the three categories of infringing sales I have already indicated will be

the sum of damages under this head. I do not have sufficient information before me now to effect the calculations myself. No doubt the respective accountants of the parties can extract the necessary figures from the defendants' records and agree the total figure. If any difficulty arises, an application can be made.

+ + +

[1983] F.S.R. 512

REDROW HOMES LIMITED AND OTHERS
(APPELLANTS)

v.

BETT BROTHERS PLC AND OTHERS
(RESPONDENTS) (SCOTLAND)

ON 22 JANUARY 1998

LORD GOFF OF CHIEVELEY

My Lords,

I have had the advantage of reading in draft the speeches which have been prepared by my noble and learned friends, Lord Jauncey of Tullichettle and Lord Clyde. For the reasons they have given I would dismiss this appeal.

LORD JAUNCEY OF TULLICHETTLE

My Lords,

The single issue in this appeal concerns the proper construction of sections 96 and 97 of the Copyright Designs and Patents Act 1988 (the Act of 1988). It is whether a pursuer in an action for infringement of copyright is entitled to obtain from the defender both an account of profits and a sum of money by way of additional damages.

The pursuers aver that they are residential developers and builders of detached houses to a number of designs in respect of which they own the copyright. They further aver that the defenders who are in the same line of business are building houses which are flagrant copies of the pursuers' designs. The pursuers seek inter alia (a) an order for production of a full account of profits realised by the defenders by reason of their infringement and for payment of a sum equivalent to such profits, and (b) a sum of money as additional damages in terms of section 97(2) of the Act of 1988. The defenders took a plea to the relevancy inter alia of the pursuer's averments anent additional damages but the Lord Ordinary after a hearing in Procedure Roll allowed a proof before answer of all the pursuers' averments. On a reclaiming motion the Second Division sustained the defenders' plea to the relevancy of the above averments. The pursuers now appeal to Your Lordships' House.

Sections 96 and 97 of the Act of 1988, which occur in the Chapter of Part 1 thereof dealing with remedies for infringement, are in the following terms:

"Rights and remedies of copyright owner

"96.--(1) An infringement of copyright is actionable by the copyright owner.

"(2) In an action for infringement of copyright all such relief by way of damages, injunctions, accounts or otherwise is available to the plaintiff as is available in respect of the infringement of any other property right.

"(3) This section has effect subject to the following provisions of this Chapter.

"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."

The appellants accepted that they could not competently claim both damages and an account of profits under section 96(2) but they argued that section 97(2) provided an independent remedy of additional damages which was sui generis and which could therefore be sought in addition to an account of profits. They relied particularly on (i) the difference in wording between the two sections and their predecessor, section 17 of the Copyright Act of 1956, and (ii) *Cala Homes (South) Ltd. v. Alfred McAlpine Homes (East) Ltd.* (No 2) [1996] F.S.R. 36, in which Laddie J. held that additional damages could be awarded as well as any other form of financial relief ordered under section 96(2). The respondents maintained that "additional" meant additional to other damages and that the *Cala Homes* case had been wrongly decided.

The court was first empowered to award additional damages for infringement of copyright

in section 17 of the Act of 1956 which resulted from the Gregory Committee Report (Cmnd. 8662 (1952)). This report recommended, inter alia, in paragraph 294:

"That the court should be given discretionary power to impose something equivalent to exemplary damages in cases where the existing remedies give inadequate relief."

This recommendation was given effect to in section 17 of the Act of 1956 which provided, inter alia:

"Action by owner of copyright for infringement. "17.-- (1) Subject to the provisions of this Act, infringements of copyright shall be actionable at the suit of the owner of the copyright; and in any action for such an infringement all such relief, by way of damages, injunction, accounts or otherwise, shall be available to the plaintiff as is available in any corresponding proceedings in respect of infringements of other proprietary rights.

"(2) Where in an action for infringement of copyright it is proved or admitted--

(a) that an infringement was committed, but

(b) that at the time of the infringement the defendant was not aware, and had no reasonable grounds for suspecting, that copyright subsisted in the work or other subject-matter to which the action relates,

the plaintiff shall not be entitled under this section to any damages against the defendant in respect of the infringement, but shall be entitled to an account of profits in respect of the infringement whether any other relief is granted under this section or not.

"(3) Where in an action under this section an infringement of copyright is proved or admitted, and the court, having regard (in addition to all other material considerations) to --

(a) the flagrancy of the infringement, and

(b) any benefit shown to have accrued to the defendant by reason of the infringement,

is satisfied that effective relief would not otherwise be available to the plaintiff, the court, in assessing damages for the infringement, shall have power to award such additional damages by virtue of this subsection as the court may consider appropriate in the circumstances."

I have italicised the words in subsection 3 for reasons which will appear later.

The distinction between exemplary or punitive damages on the one hand and aggravated but nevertheless compensatory damages on the other had become somewhat blurred prior to *Rookes v. Barnard* [1964] A.C. 1129 and *Broome v. Cassell & Co. Ltd.* [1972] 1 A.C. 1027, so that it cannot be certain which of the two categories of damage the Gregory Committee had in mind in 1952. What is certain, however, is that section 17(3) restricted the court's power to award additional damages to cases in which it was already assessing damages for the infringement. My reasons for this conclusion may be stated quite shortly.

Section 17(1) contemplated, inter alia, an action of damages for infringement. Subsection (2) provided that such damages should not be available against an innocent infringer. When subsection (3) referred to "assessing damages" it referred back to the damages mentioned in subsection (1) and (2), that is to say, normal compensatory damages for infringement. Subsection (3) made clear that it was only in assessing such damages that the court had power to award additional damages. There could thus have been no question of additional damages being awarded where an account of profits had been awarded. Additional damages in the subsection were damages additional to those being awarded under section 17(1).

The Act of 1988 was preceded by the Whitford Committee Report on the Reform of copyright law (Cmnd. 6732 (1977)), and paragraph 704 thereof, which alone of all the paragraphs refers to the remedy of additional damages, is in the following terms:

"No one has submitted that exemplary damages in cases of flagrant infringement should be abolished, and we are of the opinion that this provision should undoubtedly be retained. The condition that such damages shall only be awarded if the court is satisfied that effective relief would not otherwise be available to the plaintiff has, we understand, been interpreted as referring to relief which might be obtained outside copyright law. It is our view that the provisions for exemplary damages should if anything be strengthened and that the power of courts to award additional damages if there has been a flagrant infringement should not be fettered by any requirement that the plaintiff must show some particular benefit which has accrued to the defendant or that the plaintiff must satisfy the court that effective relief could not otherwise be available. In the case of

flagrant infringement the court should be left with a complete discretion to make such 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."

This paragraph is instructive in that although it recommends the strengthening of the provisions for additional damages in two respects it nowhere suggests that such damages should in future be capable of being awarded independently of normal compensatory damages. In the event, the Act of 1988 in section 97(2) gave effect to only one of the Whitford Committee recommendations anent additional damages, namely, the removal of the requirement in sections 17(3) that effective relief would not otherwise be available to the plaintiff. Against this background I turn to consider whether, notwithstanding the lack of a recommendation in the report, Parliament has nevertheless brought about the result for which the appellants contend.

They argued that the omission from section 97(2) of the Act of 1988 of the words which I have italicised in section 17(3) of the Act of 1956 demonstrated that Parliament intended to alter materially the position in relation to additional damages. In particular the failure to re-enact the words "in assessing damages for infringement" showed that it was no longer intended to tie additional damages to an award of normal compensatory damages but to erect them into an independent remedy. Considerable reliance was placed on the *Cala Homes* case [1996] F.S.R. 36, which was agreed to be the only reported decision directly in point. Laddie J. said, at p. 40:

"Section 97(2) is quite separate from section 96 and is concerned with the court's power to award 'additional damages as the justice of the case may require.' That is to say damages additional to the relief ordinarily available under section 96(2). It follows that if the justice of the case so requires, the statutory additional damages under the subsection may be ordered whichever form of financial relief under section 96(2) the plaintiff chooses."

After stating that there was nothing to show that the legislative intent was that section 97(2) should merely restate the law as it was under section 17(3), he continued, at p. 43:

"Furthermore it has not been suggested that there is anything in the legislative history

which expressly supports the proposition that additional damages, whether under section 17(3) or section 97(2), were intended to be restricted to cases where the plaintiff had elected to seek damages. On the contrary, the last sentence of paragraph 294 of the Gregory Committee Report cited above suggests the opposite. It follows that in so far as the defendant seeks to deny the plaintiffs additional damages by tying them to damages under section 96(2) because both are 'compensatory' and must therefore be dealt with in tandem, its arguments are not supported either by the wording of section 97(2) or its legislative history."

My Lords I must respectfully disagree with Laddie J.'s views on the legislative history. Whatever the Gregory Committee Report may have intended to recommend there can be no doubt, for the reasons which I have already stated, that Parliament in section 17(3) provided that additional damages could only be awarded when normal compensatory damages were being assessed under section 17(1). The question is whether this position has been altered in the Act of 1988.

Sections 96 and 97(1) re-enact respectively section 17(1) and (2) of the Act of 1956. The minor differences in wording between the earlier and later provisions do not as a matter of construction produce a difference in effect. Indeed section 172(1) and (2) which occurs in Part 1 of the Act of 1988 specifically provides:

"(1) This part restates and amends the law of copyright, that is, the provisions of the Copyright Act 1956, as amended.

"(2) A provision of this Part which corresponds to a provision of the previous law shall not be construed as departing from the previous law merely because of a change of expression."

Section 97(2) substantially re-enacts section 17(3) but omits the words italicised in the latter section, which omission, the appellants claim, amounted to far more than a mere change of expression. Their argument necessarily involves the omission of the above words resulting in two material alterations to the previous law. In the first place "additional damages" would have a different meaning in section 97(2) than it did in section 17(3), being now an independent remedy. In the second place, whereas no award of additional damages could be made against an

innocent infringer under section 17 such an infringer may now, the appellants argue, be subject to such an award. Furthermore the argument produces the anomaly that "damages" in section 97(2) must necessarily have a meaning somewhat different from "damages" in sections 96(1) and 97(1). If this were not so an innocent infringer could not be exempt from the damages referred to in the latter two sub-sections but nevertheless liable to the damages referred to in the former sub-section.

Part III of the Act of 1988 creates a new property right known as a design right. Subsections (1)(2) and (3) of section 229 are in effect in identical terms respectively to sections 96(1) and (2) and 97(2). The provisions of section 97(1) relating to innocent infringers are repeated in a separate section. There being no prior legislation in relation to design rights section 229 must be construed solely by reference to its context in the Act of 1988. The words "additional damages" without further explanation or qualification immediately provoke the question "additional to what"? The natural and ordinary meaning is additional to other damages already assessed, or as the respondent put it succinctly "more of the same." That is the proper meaning of the words in section 229(3). This was the meaning of the words in section 17 and deletion of the italicised words on re-enactment has in my view done nothing to alter that meaning. It would be surprising if sections 229(3) and 97(2) albeit in almost identical terms were to be construed as producing substantially different results. Furthermore in light of the provisions of section 172(1) and 2) it would be particularly remarkable if Parliament had intended to create an entirely new independent remedy available against infringers whether innocent or not in a section dealing with damages rather than remedies and that solely by implication as a result of the omission of certain words in a re-enacting section. I am satisfied that Parliament had no such intention and I therefore consider that the Second Division were correct in their reasoning and conclusion that a claim to additional damages does not lie where a pursuer seeks an account of profits. It follows that *Cala Homes (South) Ltd. v. Alfred McAlpine Homes (East) Ltd. (No. 2)* [1996] F.S.R. 36 was wrongly decided.

I would only add that since I take the view that this appeal turns on the proper construction of sections 96 and 97 I have found it

unnecessary to determine whether additional damages are by nature punitive or purely compensatory, since in either event they remain damages.

For the foregoing reasons I would affirm the interlocutor of the Second Division of 14 March 1997 and dismiss the appeal.

LORD SLYNN OF HADLEY

My Lords,

I have had the advantage of reading in draft the speeches which have been prepared by my noble and learned friends, Lord Jauncey of Tullichettle and Lord Clyde. For the reasons which they have given I also would dismiss this appeal.

LORD HOPE OF CRAIGHEAD

My Lords,

I have had the advantage of reading in draft the speeches which have been prepared by my noble and learned friends, Lord Jauncey of Tullichettle and Lord Clyde. For the reasons which they have given I also would dismiss this appeal.

LORD CLYDE

My Lords,

This appeal concerns the construction of the words "additional damages" in section 97(2) of the Copyright, Designs and Patents Act 1988. Either it is intended to refer to an addition to an award of damages, or it is intended to constitute a self-standing remedy. As was recognised both in the Outer House and in the Inner House persuasive arguments can be presented for either view and the decision is not altogether easy. Despite the careful presentation of the argument for the appellants, fortified as it was by the judgment of Laddie J. in *Cala Homes (South) Ltd. v. Alfred McAlpine Homes (East) Ltd. (No.2)* [1996] F.S.R. 36 I have come to the view that the result reached by the Second Division is to be preferred. There are four considerations which have moved me to that opinion.

In the first place the language used in the statute seems to me to point to the understanding that what is intended in section

97(2) is an enhancement of an award of damages and not the provision of a self-standing remedy. The use of the word "damages" in sections 96(2) and 97(1) plainly refers to the ordinary remedy of damages and it is difficult to read the term "additional damages" in section 97(2) as something quite separate and distinct. The phrase itself naturally reads as intending an addition to an award of damages rather than, as Laddie J. put it, at p. 40, "damages additional to the relief ordinarily available under section 96(2)."

Secondly, it seems to me that Chapter VI of the Act, which commences with section 96, sets out a statutory code for the remedies for infringement of copyright. This is reflected in particular in sections 96 and 97 by the repetition of the phrase "in an action for infringement of copyright", in sections 96(2), 97(1) and 97(2). The provision in section 97(1) is tied in as part of the scheme and does not constitute a separate remedy. The initial list of remedies in section 96(2) is made by subsection (3) to have effect "subject to the following provisions of this Chapter." Thus structurally section 97(1) is a qualification to section 96 and it is natural to read section 97(2) as similarly related. In this way section 97 appears to contain respectively a derogation from and an embellishment to the provisions of section 96(2). That it is not as matter of form directly included within section 96(2) does not mean that it is an independent self-standing remedy. The corresponding provision of the Act dealing with design right, section 229, provides in subsection (2) for the list of remedies and in subsection (3) for the award of "additional damages." That the provision appears in the one context in a separate section and in the other in the same section suggests that the particular layout of sections 96 and 97 is not of consequence.

In the third place, it seems to me quite clear that additional damages under the earlier legislation, section 17 of the Copyright Act 1956, were intended to be an enhancement of an award of ordinary damages. In section 17(3) it was expressly provided that the court might make such an award "in assessing damages for the infringement." Those words have not been copied in the later form of the legislation in section 97. But the significance which might otherwise have been attributed to the disappearance of those words in the 1988 Act is materially diminished by the provisions of section 172. That section explains that Part I of

the Act, into which sections 96 and 97 fall, is restating and amending the law of copyright. It then provides expressly in subsection (2) that a provision of Part I which corresponds to a provision of the previous law is not to be construed as departing from the previous law merely because of a change of expression. Subsection (3) expressly permitted reference to decisions under the former law to establish a departure from the previous law or to establish the true construction of Part I. The intention was plainly not only to amend but also to restate the former law, in what was no doubt hoped to be clearer language, and to preserve the existing jurisprudence. The expression "additional damages" remained unchanged. If it was to be transformed into some independent remedy compatible with an accounting that would have required clear words. On the contrary the retention of the expression and the evident intention to re-write without necessarily amending the law suggest that the concept of additional damages was not intended to be changed. Furthermore I find no indication in paragraph 704 of the report of the Whitford Committee, which deals with this matter, of the intention to make any basic change in the concept of additional damages. It was evidently desired to strengthen the deterrent element in a damages award with particular reference to flagrant infringements, especially since it was proposed to remove the provisions in section 18 of the Act regarding conversion damages. The whole context and substance of the discussion is one of damages. The intention at least of the Committee was evidently to widen the scope of the remedy and the deletion of the words in the former legislation restricting the award of additional damages to cases where "effective relief would not be otherwise available" was not done in order to change the nature of the award from being an enhancement of an award of damages.

Finally, I accept that, as counsel for the appellant explained, a distinction can be drawn between a "benefit accruing to the defendant" such as is referred to in section 97(2) and the net profits which the defender 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. But this additional content for the word "benefit" does not seem to me to justify the conclusion

that an award under section 97(2) was intended to be available when the pursuer opted to claim an accounting. The matter of a benefit accruing to the defender was among the express considerations to which the court was to have regard under the former provision in section 17(3)(b) of the Act of 1956 which was plainly in the context of an award for damages. That the remedy of an award under section 97(2) may not be available as an addition to an accounting of profits is wholly consistent with the basic principle that an award for damages is inconsistent with an accounting. Whether the

character of an award of damages under section 97(2) is defined as exemplary damages, or, more probably, aggravated damages, it remains an award of damages. In the absence of any clear indication to the contrary I am not persuaded that Parliament intended to innovate upon the basic principle and allow a claim of this kind to be pursued alongside an accounting. But that is what the pursuers have sought to do in the present action.

The appeal should be dismissed.

Ludlow Music Inc. v. Williams

High Court of Justice (Chancery Division)

Ch D

(Pumfrey J.):

February 14, 2002

Pumfrey J.:

+ + +

Principles applicable to the award of damages

37 Section 96 of the Copyright, Designs and Patents Act 1988 ("the 1988 Act") provides that in an action for infringement, and subject to the provisions of Chapter VI of the 1988 Act, "all such relief by way of damages, injunctions, accounts or otherwise is available to the plaintiff as is available in respect of the infringement of any other property right". Section 97 makes provision for damages in infringement actions:

"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, 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."

This case raises issues both as to the proper approach to damages for infringement generally and as to additional damages in particular.

38 It is sometimes said that damages in copyright infringement actions compensate the claimant for the depreciation in the value of the copyright caused by the activity of the

defendants. This is not a particularly helpful formulation, and in the many cases the claimant is in the business of reproducing the copyright work or licensing others to reproduce it, damages for infringement may be approached on the same basis as in patent actions. In *General Tire v. Firestone* [1975] 1 W.L.R. 819; [1976] R.P.C. 197, the principles are comprehensively set out by Lord Wilberforce in a passage which I should quote in full, as it is relevant to many of the problems which arise in the present case:

"As in the case of any other tort (leaving aside cases where exemplary damages can be given) the object of damages is to compensate for loss or injury. The general rule at any rate in relation to 'economic' torts is that the measure of damages is to be, so far as possible, that sum of money which will put the injured party in the same position as he would have been in if he had not sustained the wrong (*Livingstone v. Rawyards Coal Co.* (1880) 5 App. Cas. 25, per Lord Blackburn, at page 39).

In the case of infringement of a patent, an alternative remedy at the option of the plaintiff exists by way of an account of profits made by the infringer -- see Patents Act 1949, s.60. The respondents did not elect to claim an account of profits: their claim was only for damages. There are two essential principles in valuing that claim: first, that the plaintiffs have the burden of proving their loss: second, that, the defendants being wrongdoers, damages should be liberally assessed but that the object is to compensate the plaintiffs and not punish the defendants (*Pneumatic Tyre Co. Ltd v. Puncture Proof Pneumatic Tyre Co. Ltd* (1899) 16 R.P.C. 209 at page 215.)

These elemental principles have been applied in numerous cases of infringements of patents. Naturally their application varies from case to case. Reported authorities, many of which were cited in argument, may be useful as illustrations of judicial reasoning, but are capable of misleading if decisions on particular sets of facts and observations in judgments leading up to such decisions are later relied upon as establishing a rule of law. Nevertheless I think it useful to refer to some of the main groups of reported cases which exemplify the approaches of courts to typical situations.

1. Many patents of inventions belong to manufacturers, who exploit the invention to make articles or products which they sell at a

profit. The benefit of the invention in such cases is realised through the sale of the article or product. In these cases, if the invention is infringed, the effect of the infringement will be to divert sales from the owner of the patent to the infringer. The measure of damages will then normally be the profit which would have been realised by the owner of the patent if the sales had been made by him (see *The United Horse-shoe and Nail Co. Ltd v. John Stewart & Co.* (1888) 13 App. Cas. 401). An example of this is *Boyd v. The Tootal Broadhurst Lee Co. Ltd* (1849) 11 R.P.C. 175, where the plaintiff manufacturers proved that a profit of 7s per spindle would have been made, and settlements of litigation for lesser rates were discarded.

2. Other patents of inventions are exploited through the granting of licences for royalty payments. In these cases, if an infringer uses the invention without a licence, the measure of the damages he must pay will be the sums which he would have paid by way of royalty if, instead of acting illegally, he had acted legally. The problem, which is that of the present case -- the respondents not being manufacturers in the United Kingdom -- is to establish the amount of such royalty. The solution to this problem is essentially and exclusively one of evidence, and as the facts capable of being adduced in evidence are necessarily individual from case to case, the danger is obvious in referring to a particular case and transferring its conclusions to other situations.

Two classic cases under this heading are *Penn v. Jack* (1866) 14 L.T. 495; (1867) L.R. 5 Eq. 81 and *Aktiengesellschaft für Autogene Aluminium Schweissung v. London Aluminium Co. Ltd* (No. 2) (1923) 40 R.P.C. 107. In *Penn v. Jack* the patentee was shown to have approached all users of the invention and to have successfully required the vast majority to pay him a royalty of 2s 6d per horse power. The defendant was one of the few who refused and it was held that he should pay damages for infringement based on the accepted royalty rate on the basis that he might have expected to have got a licence at the same rate. The *Aluminium* case contains a clear statement by Sargant J., at pages 113-114:

'... what has to be ascertained is that which the infringer would have had to pay, if instead of infringing the patent, he had come to be licensed under the patent. I do not mean by that that the successful patentee can ascribe any fancy sum which he says he might have charged, but in

those cases where he has dealt with his property merely by way of 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 between the patentee and the person desiring to use the patented article has been taken as being the price or royalty that presumably would have to be paid by the infringer. In doing that, it seems to me that the court is certainly not treating the infringer unduly harshly; he should at least, in my judgment, have to pay as much as he would in all probability have had to pay had he to deal with the patentee by way of free bargain in the way in which other persons who took licences did in fact pay.'

These are very useful guidelines, but the principle of them must not be misapplied. Before a 'going rate' of royalty can be taken as the basis on which an infringer should be held liable, it must be shown that the circumstances in which the going rate was paid are the same as or at least comparable with those in which the patentee and the infringer are assumed to strike their bargain. To refer again to *Boyd v. The Tootal Broadhurst Lee Co. Ltd* (1894) 11 R.P.C. 175: when it was argued that because numerous other persons had agreed to pay at the rate of 4s per spindle the infringer should also pay at the rate (rather than at 7s per spindle, which represented the normal profit), it was relevant to show that the rate of 4s was negotiated by way of settlement of litigation in which the validity of the patent was in doubt. This was not the equivalent of that which the court had to assume: for that purpose the patent must be assumed to be valid. This line of argument is very relevant in the present case, for, as I shall show, the appellants adduced a great deal of evidence as to the royalties actually agreed by various licensees, and this was discarded, totally, by the learned judge and the Court of Appeal. They had every right to discard it if the bargains which led to these royalties being agreed were reached in circumstances differing from those which must be assumed when the court is attempting to fix a bargain as between patentee and infringer. The central question in the present case is whether this difference existed.

3. In some cases it is not possible to prove either (as in 1) that there is a normal rate of profit, or (as in 2) that there is a normal, or established, licence royalty. Yet clearly damages

must be assessed. In such cases it is for the plaintiff to adduce evidence which will guide the court. This evidence may consist of the practice, as regards royalty, in the relevant trade or in analogous trades; perhaps of expert opinion expressed in publications or in the witness box; possibly of the profitability of the invention; and of any other factor on which the judge can decide the measure of loss. Since evidence of this kind is in its nature general and also probably hypothetical, it is unlikely to be of relevance, or if relevant of weight, in the face of the more concrete and direct type of evidence referred to under 2. But there is no rule of law which prevents the court, even when it has evidence of licensing practice, from taking these more general considerations into account. The ultimate process is one of judicial estimation of the available indications. The true principle, which covers both cases when there have been licences and those where there have not, remains that stated by Fletcher Moulton L.J. in *Meters Ltd v. Metropolitan Gas Meters Ltd* (1911) 28 R.P.C. 157 at pages 164-165: though so often referred to it always bears recitation:

'There is one case in which I think the manner of assessing damages in the case of sales of infringing articles has almost become a rule of law, and that is where the patentee grants permission to make the infringing article at a fixed price -- in other words, where he grants licences at a certain figure. Every one of the infringing articles might then have been rendered a non-infringing article by applying for and getting that permission. The court then takes the number of infringing articles, and multiplies that by the sum that would have had to be paid in order to make the manufacture of that article lawful, and that is the measure of the damage that has been done by the infringement. The existence of such a rule shows that the courts consider that every single one of the infringements was a wrong, and that it is fair -- where the facts of the case allow the court to get at the damages in that way -- to allow pecuniary damages in respect of every one of them. I am inclined to think that the court might in some cases, where there did not exist a quoted figure for a licence, estimate the damages in a way closely analogous to this. It is the duty of the defendant to respect the monopoly rights of the plaintiff. The reward to a patentee for his invention is that he shall have the exclusive right to use the invention, and if you want to use it your duty is to obtain his permission. I am

inclined to think that it would be right for the court to consider what would have been the price which -- although no price was actually quoted -- could have reasonably been charged for that permission, and estimate the damage in that way. Indeed, I think that in many cases that would be the safest and best way to arrive at a sound conclusion as to the proper figure. But I am not going to say a word which will tie down future judges and prevent them from exercising their judgment, as best they can in all the circumstances of the case, so as to arrive at that which the plaintiff has lost by reason of the defendant doing certain acts wrongfully instead of either abstaining from doing them, or getting permission to do them rightfully.'

A proper application of this passage, taken in its entirety, requires the judge assessing damages to take into account any licences actually granted and the rates of royalty fixed by them, to estimate their relevance and comparability, to apply them so far he can to the bargain hypothetically to be made between the patentee and the infringer and to the extent to which they do not provide a figure on which the damage can be measured to consider any other evidence, according to its relevance and weight, upon which he can fix a rate of royalty which would have been agreed."

39 This frequently-cited passage does not deal with one problem which is common in copyright licensing, and this is the correct treatment of derivative works, that is, works which are themselves entitled to a copyright but which infringe another. Save in the case of slavish copying it is likely that there will be a copyright in the derivative work. In *Redwood Music Ltd v. Chappell & Co. Ltd* [1982] R.P.C. 109 at p. 120, Robert Goff J. said this:

"For Redwood, Mr. Bateson submitted that no copyright can subsist in an arrangement of a work made in infringement of the copyright in the original work. In support of this proposition, he relied upon *Gramophone Co. Ltd v. Steven Carwardine and Co.* [1934] Ch. 450; however, it appears that in that case Maugham J. merely proceeded upon an assumption that the Copyright Act 1911 gives protection only in respect of records lawfully made. The difficulty with Mr Bateson's submission is, however, that it involves an interpolation into section 2(1) of the Act of 1956. The subsection provides that copyright shall subsist, subject to the provisions of the Act, in every original literary, dramatic or musical work; Mr Bateson seeks to insert the

word "lawful" before or after the word "original". I must confess that I can see no warrant for any such interpolation. It is to be observed that in *Wood v. Boosey* (1868) L.R. 3 Q.B. 223 Kelly C.B. contemplated that copyright might subsist in an infringing work (see page 229); yet the opportunity was not taken, either in 1911 or in 1956, to reject that opinion in the statutory definitions enacted in the Acts of those years. Furthermore, Mr Bateson's submission, if accepted, could lead to substantial injustice. It is understandable that the owner of a copyright should be entitled to restrain publication of an infringing work; but the idea that he should be entitled to reap the benefit of another's original work, by exploiting it, however extensive such work might be, however innocently it might have been made, offends against justice and commonsense. I have therefore no hesitation in rejecting the argument of Redwood on this point."

40 It is now possible to add that the matter has been allowed to rest by the legislature in the 1988 Act. Moreover such a copyright is enforceable: see *ZYX Music GmbH v. Chris King* [1995] F.S.R. 566 (Lightman J.) subject to an obligation on the owner of the copyright in the derivative work to account to the author of the first work.

41 When copyright clearance for derivative works is obtained, it is common in the trade for the owner of the work in respect of which the licence is sought (I shall call this the "first work", and the copyright the "first copyright") to demand a share of the copyright in the derivative work. This simplifies the collection of royalties, and gives the owner of the first work control over the exploitation of the derivative work. This has become important as the use of "samples" of recorded works intended for use in other works has become widespread. Ms Blain, who gave expert evidence on the part of the defendants, was engaged in the business of clearing samples. Her evidence was that the most usual method of clearance she encounters is where the copyright owner in the first work claims a percentage copyright interest in the derivative work. The writer and publisher of the first work are then cited to the collection societies as co-writer and co-publisher of the derivative work, and collect any income direct at source. The advantage of a joint share in the copyright is that no exploitation of the work can take place without the consent of the joint owners (see section 173(2) of the 1988 Act).

42 When one comes to consider comparables in a case such as the present, the position is rather more complex than it would be in respect of a patent. If the owner of the first copyright stipulates for (say) 50 per cent of the copyright, it is implicit that there will be a licence for the particular recording in respect of which his consent is obtained. In countries where there is no statutory licence in respect of second performances (there is now no such licence in the United Kingdom, although there is one in the U.S.) all other forms of exploitation will be subject to the further control of the owner of the first copyright. The royalty rate and the right acquired by the owner of the first copyright are thus inseparable aspects of the same question, and must be considered together.

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Additional damages--principles

53 There is no doubt that copyrights are special in this sense, that provision is made for the payment of additional damages in the circumstances set out in section 97 of the 1988 Act. If the royalty demanded by the copyright owner for a licence is either a rate that represents the going rate or a rate that it would be reasonable to demand in all the circumstances (see the passage from the speech of Fletcher Moulton L.J. in the *Meters* case quoted above) then that is what will be recovered as damages. Where the owner is only willing to license at a figure more than the market will bear, he will nonetheless recover his true damage. But in such a case the jurisdiction to award additional damages is important, since it is highly important that the approach to the computation of damages should not have the effect of encouraging would-be licensees deliberately to infringe, having calculated that they may in this way effectively obtain a compulsory licence in respect of the period of infringement at a rate lower than the owner of the copyright demands. All depends upon the circumstances. Even the nature of deliberate infringements varies from case to case. It is possible that the infringer has a well-based belief that negotiation is dragging on, but that experience of many other like negotiations suggests that agreement will be forthcoming in the usual way. At the other end of the range, a clear refusal by the owner of the right may be

met by deliberate and cynical infringement. I accept the thrust of Mr Saini's submission to this extent. The two cases should, in my judgment, be treated differently.

54 In *Redrow Homes Ltd v. Betts Brothers plc* [1999] A.C. 197, the House of Lords expressly did not come to any conclusion as to the nature of the award of additional damages. Lord Clyde considered that additional damages were most probably aggravated, rather than exemplary, damages. Lord Jauncey of Tullichettle left the point open. Disregarding the legislative history of the section it seems to me that the two matters to be considered that are identified in section 97(2) -- flagrancy and benefit to the defendant -- do at least point in favour of the suggestion that the section is aimed (among other things) at what might be called "restitutionary damages", that is, damages calculated by reference to the additional benefit accrued to the defendant by his deliberate infringement. Such damages are not truly compensatory, but nor are they exemplary. They are related to the account of profits. In *Cala Homes (South) Limited v. Alfred McAlpine Homes East Limited (No. 2)* [1996] F.S.R. 36 Laddie J. came to the opposite conclusion in the course of a judgment which reached a conclusion expressly overruled in *Redrow Homes*. He based himself largely upon the discussion of section 17(3) of the Copyright Act 1956 in the Whitford Report, and concluded that the change in expression in section 97(2) was not a change without consequence as a result of the provisions of section 172 of the 1988 Act. The point was also left open by the Court of Appeal in *ZYX Music v. Chris King* [1997] 2 All E.R. 129(CA).

55 For my part, I do not read the decision of the House of Lords in *Redrow Homes* as

excluding the possibility that an award of damages under section 97(2) might include a restitutionary element. Returning to considerations close to the facts of the present case, I consider that one should not exclude the possibility that an award of damages might be made under section 97(2) against a defendant who had declined the claimant's offer of a licence but deliberately infringed, with the effect of bringing the award of damages up to the fee originally sought by the claimant, or even so as to enable the claimant to participate in the profits made by the defendant while also recovering damages for the invasion of his right. Whether such an award of damages should be made must depend upon all the circumstances of the case. Where the owner of the right did not grant licences, I can again envisage circumstances in which an award of strictly compensatory damage might be accompanied by an award of additional damages reflecting the benefit derived by the defendant, as the section appears to contemplate. Thus, if the correct approach to infringement damages were to calculate a royalty on a "profits available" basis, then in a case of flagrant infringement it might be right to take a larger share of the available profits for the claimant's account than would otherwise be taken.

56 It is not necessary for me to decide whether additional damages can include a punitive element, or be purely punitive. Accordingly I do not do so.

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[2002] F.S.R. 57