

**Damages and Account of Profits in Trademark,
Trade Secrets, Copyright and Patent Law**

by

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I. INTRODUCTION

The purpose of this paper is to examine the two monetary remedies of damages and account of profits as they are applied in the areas of trademark, trade secrets, copyright and patent law. Because damages is a common law remedy while account of profits has its roots in the Chancery Court, the two remedies are quite distinctive and, indeed, mutually exclusive. As Windeyer J. said in *Colbeam Palmer Ltd. v. Stock Affiliates Pty. Ltd.*: "The plaintiff whose mark has been infringed can choose between damages or an account of profits. He cannot have both. They are alternative remedies."¹ The philosophy behind this distinction was explained in the same case in the following terms:²

The distinction between an account of profits and damages is that by the former the infringer is required to give up his ill-gotten gains to the party whose rights he has infringed; by the latter he is required to compensate the party wronged for the loss he has suffered. . . . What a plaintiff might have made had the defendant not invaded his rights is by no means the same thing as what the defendant did make by doing so.

These objections, although made in a case involving a trademark infringement, are equally applicable to the trade secrets, copyright, and patent law areas. As these two remedies are necessarily separate, reflecting as they do the different philosophies behind the common law and equity, they are applied according to distinctly different principles. It is the aim of this paper to set out these principles of

¹ [1972] R.P.C. 303, 308.

² *Idem.*

application in the four areas of trademark, trade secrets, copyright and patents and, in addition, to draw attention to certain similarities and differences which exist in their use in these respective areas.

II. TRADEMARK

It should be noted initially that although an action in trademark may have its basis either in infringement of a registered trademark or in a passing off of a common law trademark as far as damages are concerned, no distinction need be drawn between the two causes of action. This is also necessarily the case if the remedy sought is an account of profits.

A. *Damages*

As a general rule, damages in trademark law are assessed on the basis of loss of business profits caused by the diversion of the plaintiff's customers to the defendant as a result of the defendant's misrepresentation. On first impression, this may appear to mean that all goods sold by the defendant through his infringement of the plaintiff's trademark would otherwise have been sold by the defendant and that this is the true measure of his loss. In some cases, this may well be the proper inference upon the facts, but more often than not this rather wide basis of recovery must be restricted as the plaintiff's real loss will in fact not be so great. It must be remembered, for example, that the plaintiff's property is in the trademark and not in the actual goods which he is selling. This means that the Court has to decide what has been lost by the plaintiff because of an illegal use of his mark, and this is clearly distinct from what the plaintiff may have lost because the defendant was selling a competing product which was similar or even identical to his own.

Thus, it is plain to see why in numerous trademark cases, the measure of damages cannot be equal to the number of infringing sales which the defendant has made. The sales may not have been induced by the use of the infringing mark in which case the plaintiff has suffered no damage. Much depends on how well known the mark is. If the mark which is being infringed is well known among the buying public, it may well be that the Court will find that the public purchased the defendant's product because of that mark and the fact that products sold under that mark were well known as reliable. If, however, the mark is scarcely recognised among the buying public, it is open for the Court to infer that the defendant's product, although sold under an infringing mark, sold because of inherent qualities in the goods themselves and not because of the fact that it was sold under

that particular mark. Between these two extremes there are cases where it can be said that a proportion of the defendant's sales were made because of the fact that an infringing mark was used. It is for the Court, in each case, to decide on the evidence what that proportion was and then to award damages accordingly. In any event, the loss which the plaintiff has suffered is not the loss resulting from the defendant selling the articles but rather the loss he has suffered because the defendant sold the article under an infringing trademark. The distinction is important.

The onus of proving damage lies on the plaintiff as it will not be presumed by the Court, in the absence of evidence, that the amount of goods sold by the defendant under the infringing trademark would, but for the defendant's unlawful acts, have been sold by the plaintiff.³ Usually the only injury which is done by an infringement is that the defendant's goods are sold instead of those of the plaintiff, and the sale of the latter is, in some degree, diminished as a consequence. However, it may appear that further damage has been done. Thus, if the plaintiff can prove that he has suffered some specific loss due to the defendant's actions, he will succeed in recovery. For example, where the spurious goods are so inferior in quality to the plaintiff's goods that the trade reputation of the plaintiff is injured, the Court will award suitable compensation.⁴ Where the stress of competition compels the plaintiff to lower his prices and thus suffer loss, the Court will again step in and take such a factor into account when assessing the true loss suffered.⁵ Yet another recoverable item is the cost of advertisements to counteract the effect of the defendant's conduct.⁶ With these specific heads of damage the plaintiff must naturally show that the loss is suffered because of the defendant's acts. Thus, he cannot recover the cost of advertising he would normally incur nor decreases in price which would have been made even without the defendant's presence.

B. *Account of Profits*

As already stated, an account of profits has its roots in equity and as such the rules by which this remedy is applied are totally different from those employed in the common law remedy of damages. Prima facie the amount recoverable in an account of profits is ascertained by assessing the net profit made by the plaintiff as a result of his infringement. As in the case of damages, it is necessary to stress the fact that it is profit that is made by infringement of the plaintiff's

³ *Leather Cloth Co. Ltd. v. Hirschfield* (1865) L.R. 1 Eq. 299.

⁴ *Sykes v. Sykes* (1824) 3 B. & Cr. 541.

⁵ *Ibid.*; cf. post at pp. 205-206.

⁶ *Spalding v. Gamage* (1915) 32 R.P.C. 273.

property in the trademark; this profit will not often be the same as profit made by the sale of the product. The distinction is perhaps best drawn by Windeyer J. in *Colbeam Palmer Ltd. v. Stock Affiliates Pty. Ltd.*,⁷ the leading case on account of profits in trademark law. The facts of that case were that the plaintiff, a British company, was registered proprietor of the name "Craftmaster" in Australia, a name under which it sold painting sets. The defendant company proceeded to market similar painting sets under the same name. When deciding on the basis of recovery for an account of profits, Windeyer J. said:⁸

In the case of a registered trademark infringement consists in the unauthorised use of the mark in the course of trade in relation to goods in respect of which it is registered. The profit for which the infringer of a trademark must account is not the profit to be made from selling the article itself but . . . the profit made in selling it under the trademark.

In other words, the full amount of profit made from the product is only a starting point for the computation of profits made by the defendant. Once this basic profit is calculated it is then necessary to decide how much is attributable to the selling of them under the trademark:⁹

. . . the defendant must account for the profits made in selling painting sets under the name "Craftmaster"—that means such profits as was attributable to the wrongful use of the mark. And that is not necessarily at all the same as the profit made by the sale of goods bearing the mark. The reason for that it clear enough. A trademark is in its nature something apart and distinct from the goods in relation to which it is to be used.

And later it was stated:¹⁰ "What the defendant must account for is what it made by its wrongful use of the plaintiff's property. The plaintiff's property is in the mark, not in the painting sets." This situation makes assessment of the recoverable profit extremely difficult, and in many cases the Court's decision as to how much the defendant has profited from the mark must be a pure "guesstimate." Windeyer J. had this to say of the assessment problem:¹¹

It is a difficulty which ceases to be troublesome in a case where a mark has become well known as indicative that goods of a particular kind are the product of a particular manufacturer or seller and those goods have acquired a reputation under that name. All profits made by an infringer by selling goods of that kind under that name may in some cases be said to be attributable to his use of the mark. In cases of that sort, the buyer of the goods is taken to have bought them because of the mark under which they were sold. If that mark was for him an inducement, not necessarily the sale inducing case, of his buying the goods, the infringing seller is accountable to the owner of the mark for the profit he made by the sale.

⁷ [1972] R.P.C. 303.

⁸ *Ibid.*, 312.

⁹ *Ibid.*, 315.

¹⁰ *Idem.*

¹¹ *Ibid.*, 316.

Where the product is not synonymous with the mark, a system of apportionment needs to be applied. In other words, the Court must decide what proportion of the profit made stems from the intrinsic quality and value of the goods. This is almost impossible to accurately assess so in such cases a reasonable approximation in apportioning will suffice:¹²

The true test of comparison is to take the ratio of profit derived when the trademark was used to the profit which would have been derived had the defendant used that which, looking at all the circumstances of the case, he would most probably have used had he not illegally adopted the trademark.

In the case of an action for damages, relief can be gained whether or not the defendant knew he was infringing the plaintiff's mark. An action for an account of profits, on the other hand, can only be successful if it can be shown that the defendant was aware of the fact that he was infringing. This attitude reflects the influence of equity with its inherent notions of "fairness." As Windeyer J. said in the *Colbeam Palmer* case:¹³

... the account of profits retains the characteristics of its origin in the Court of Chancery. By it, a defendant is made to account for, and is stripped of, profits he has made which it would be unconscionable that he retain. These are profits made by him dishonestly, that is, by his knowingly infringing the rights of the proprietor of the trademark.

Thus, it can be seen that liability to account is not necessarily co-extensive with the act of infringement. The account is limited to only the profits made by the defendant during the period when he was knowingly transgressing the plaintiff's rights. It is upon the plaintiff to prove this in each case. Nor is it enough that the defendant ought to have known that he was infringing the plaintiff's mark: "But a lack of diligence in inquiring does not turn ignorance into knowledge. Dishonesty is not to be inferred from lack of care."¹⁴ The reasoning behind this requirement of knowing infringement is clear. It prevents a plaintiff from failing to inform the defendant of his transgression and then claiming profits which have in reality accrued because of his delay.¹⁵

As has already been stated, an account of profits is prima facie assessed on net profit. It remains at the moment an open question whether, when assessing net profit, general overheads can be included as a cost item. In *Colbeam Palmer*¹⁶ Windeyer J. said that costs cannot take into account any general overhead costs, managerial expenses and so forth of the defendant's business "as it seems that all these would

¹² *Ibid.*, 318.

¹³ *Ibid.*, 310.

¹⁴ *Ibid.*, 308.

¹⁵ *Electrolux v. Electrix* (1953) 70 R.P.C. 158.

¹⁶ [1972] R.P.C. 303.

have been incurred in any event in the ordinary course of its business, in which it was put in evidence the painting sets were a sideline.”¹⁷ Windeyer J. thus considered that such an item of expenditure as general overheads could not be included in calculating the net profit as the painting sets provided such a small part of the defendant’s business. However, it is submitted that in the majority of cases the better view would be to allow the inclusion of such expenditure in the assessment of an account. It would not be difficult to assess the actual proportion of managerial resources which were employed in marketing a product under an infringing mark and assessing deductible general overheads on that basis. Whatever criterion is applied, it would appear consistent to include such incidental costs whether they be in the form of stationery materials or staff salaries.¹⁸

III. TRADE SECRETS

In the area of trade secrets an action may be brought either on the basis of a breach of an implied term of a contract or for breach of confidence. In *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.*¹⁹ the Court of Appeal observed that if two parties make a contract under which one of them obtains for the purpose of the contract, or in connection with it, some confidential matter, then even though the contract is silent on the matter of confidence, the Court will imply as a term of that contract an obligation to treat such confidential matter in a confidential way. A contract was found to have existed in *Saltman’s* case so such a term could be implied. However, it was held that even without this there could be an action sustained for breach of confidence:²⁰

If a defendant is found to have used confidential information, obtained directly or indirectly from a plaintiff, without consent, express or implied, of the plaintiff, he will be guilty of an infringement of the plaintiff’s rights.

This view has been confirmed in later cases²¹ perhaps the most important of which is *Seager v. Copydex Ltd.*²² There, Lord Denning M.R. said: “The law on this subject does not depend on any implied contract. It depends on a broad principle of equity.”²³ Thus, a plaintiff may bring an action on the basis of a breach of contract or for breach of confidence in equity. It must be determined, therefore, what effect

¹⁷ *Ibid.*, 318.

¹⁸ *Lepastrier & Co. Ltd. v. Armstrong-Holland Ltd.* (1926) 26 S.R. (N.S.W.) 585.

¹⁹ (1948) 65 R.P.C. 203.

²⁰ *Ibid.*, 213.

²¹ E.g., *Coco v. A. N. Clark (Engineers) Ltd.* [1969] R.P.C. 41, 44.

²² [1967] 1 W.L.R. 923.

²³ *Ibid.*, 931.

these two causes of action have on the monetary remedies of account of profits and damages in the area of trade secrets.

A. Damages

In an action brought in equity for breach of confidence, it would normally be supposed that the Court would grant purely equitable relief in the form of an injunction and an account of profits. Such has not been the case, however. In *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.* damages were awarded under Lord Cairns' Act instead of granting an injunction. In *Seager v. Copydex* the only remedy granted was again damages (presumably awarded under Lord Cairns' Act, although no specific mention was made of this fact by any member of the Court of Appeal). The Court of Appeal in *Seager v. Copydex* attempted to set down a definitive set of rules which could be applied when awarding damages for breach of confidence. It is therefore worth-while to study this decision closely and decide whether the principles laid down are in keeping with the general thrust of the law in this area.

The system of damages in *Seager's* case is based on the cost the defendant would have incurred if he had obtained the information in question by legitimate methods. Naturally, the cost would depend upon the nature of the confidential information involved; accordingly, the Court of Appeal established three categories of such information creating a different set of rules for the assessment of damages for each category. The three categories and their respective bases for damages are as follows:²⁴ (i) "simple information" is information which could be obtained from any competent consultant, and the quantum of damages is the fee which a normal consultant would charge for such information; (ii) "special information" is information which has involved an inventive step so that it could not have been obtained merely by employing a consultant. The measure of damages in this category is the price a willing buyer would pay a willing seller for information of the inventive step; and (iii) "very special information" as a category was not clearly defined by the Court of Appeal, but it is taken to mean information that has elements of the second category coupled with some other facts rendering the situation for the plaintiff even more drastic than in cases falling within the second category. In the present case, for example, Mr Seager had another type of carpet grip, the value of which would be diminished by the defendant's patenting of the confidentially obtained details of the first carpet grip. Because the plaintiff in this case would stand to lose more, the Court

²⁴ For a more detailed discussion of these categories see Forrai, "Confidential Information—A General Survey" (1971) 6 Sydney L.R. 382.

of Appeal decided that an award of damages should be based on the capitalization of a royalty.

This system of assessment of damages has attracted a great deal of criticism.²⁵ Forrai, for example, questions whether the information as defined in category one can be considered a true trade secret worthy of protection. In category two, he points out that the plaintiff, far from being a willing seller, is unwilling, and as such should be entitled to a greater quantum of damages than the test laid down by the Court of Appeal would allow. Yet, it is submitted that in fact these criticisms are unjustified as they appear to be based upon one vital misconception. An analogy in this area of the law has been consistently drawn with the apparently related areas of trademark, copyright and patent law. At first glance, it may appear that such an analogy can be validly made, but it is submitted that on closer study it must be disregarded.

Copyright and its allies involve *property* rights. The plaintiff is regarded as having a property right in his trademark, his original work of art, or his idea. However, in trade secret law, there is no hint of a property right in the strict sense subsisting at all in the information. This is seen from the fact that actions are based on breach of confidence or breach of contract so that relief is founded not on infringement of any property right but rather on a breach of a duty whether it be contractual or equitable; this is the duty not to pass on information given in confidence. It appears that legal commentators in this area have been preoccupied with property rights and have consequently lost sight of the real basis of the action which is breach of duty. Perhaps this preoccupation has to some extent been nurtured by Lord Denning's rather imperfect analogy with conversion, an action based on a property right.²⁶ Perhaps, also confusion has been created by the Court of Appeal's careful classification of information into three different categories. It has meant that attention has been focused upon the information as property with all its associated connotations of property rights. In reality, however, the Court of Appeal only went to such lengths to classify information in this way as they saw it as a means of assessing the gravity of the breach of duty being dealt with. The more "special" the information, the greater is the degree of confidence placed in the defendant when the information is passed to him and the greater is the gravity of a breach of that confidence. Thus, by categorising the information in this way the Court is able to assess

²⁵ E.g., Forrai, *ibid.*; also see Jones, "Restitution of Benefits Obtained in Breach of Another's Confidence" (1970) 86 L.Q.R. 463; Hammond, "Developments in the Equitable Doctrine of Breach of Confidence" [1976] N.Z.L.J. 278.

²⁶ *Seager v. Copydex*, supra, 813: "If I may use an analogy, it is like damages for conversion."

in concrete terms the damage caused to the plaintiff by breach of the duty.

If *Seager v. Copydex* is examined with this fact firmly in mind, the decision of the Court of Appeal seems to make some sense. Looking at the first category, it would seem that the criticism that the information is not really secret at all is irrelevant. Forrai appears to be saying that one can have no property rights in information that is not "secret." However, it does not, in fact, matter if the information is not truly "secret" because what has to be decided is simply whether a duty not to pass on information has been breached. Naturally, if the information is too widely known, a duty of confidence can hardly be inferred. Yet, if a relationship of confidence can be found, there has been a breach of duty if the information has been passed on, even though that information may not be "secret" in the true sense of the word. Thus, it would appear that the Court of Appeal was acting consistently when it created a system of assessing damages in situations which fall within the ambit of this first category. As already stated, Forrai claims that under the second category of information, because the seller is far from willing, he should get more than just the price a willing buyer would pay a willing seller. This criticism is perhaps justified, but it must be remembered that the plaintiff has no property right in his inventive step. Because of this fact, the Court of Appeal seemed to consider that the plaintiff can be regarded as having no greater hold over the information than a willing seller would. Criticism was also made of the basis of recovery under the third category of information. Here damages are assessed on the basis of capitalization of a royalty, but as Forrai points out, the Court of Appeal gave no indication as to what period this capitalization should cover. However, the reasoning behind the decision reveals that the Court was concerned mainly with preventing the defendant from gaining a head start over his business rivals as a result of his breach of confidence. Therefore, it would seem possible that the period of capitalization would merely cover the period of time when the defendant has gained his "head start." This is purely a matter of conjecture, however, as the question remains very much an open one.

Seager v. Copydex is certainly a difficult judgment to come to grips with. It is submitted, however, that once the basic misconception as to the basis of the action is overcome, the principles created for the assessment of damages make sense. The Court of Appeal has simply tried to quantify in concrete terms what damage is suffered resulting from a breach of confidence. As stated above, an action can also be based on breach of an implied term.²⁷ As this is a breach of a

²⁷ Ante, note 19.

contractual duty, it would appear reasonable to assume that the same system of quantifying damages should apply as outlined above for breach of an equitable duty. This would be subject of course to the terms of the particular contract.

B. *Account of Profits*

The alternative monetary remedy to damages, account of profits, will be granted by the Court if it can be established that the defendant consciously breached the plaintiff's confidence and that the information acquired materially contributed to the defendant's profits. Thus, the factors taken into account in *Colbeam Palmer Ltd. v. Stock Affiliates Pty. Ltd.*²⁸ remain valid in the area of trade secrets. The main requirement is that the defendant must knowingly transgress the plaintiff's rights. It is perhaps for this reason that Lord Denning M.R. considered that an account was an inappropriate remedy in *Seager v. Copydex*²⁹ as there was some doubt in that case as to whether the defendant actually realised it was transgressing Seager's rights.

Perhaps the leading trades secrets' case on account of profits is a decision by Pennycuik J. in *Peter Pan Manufacturing Corp. v. Corsets Silhouette Ltd.*³⁰ In that case the defendants had manufactured bras using information given in confidence by the plaintiff. Pennycuik J. had this to say of account of profits in trade secrets:³¹

. . . what the plaintiff who elects in favour of an account of profits is entitled to is simply an account of profits in the sense which I have indicated, that is: What has the plaintiff expended in manufacturing these goods? What is the price which he has received on their sale? and the difference is profit.

The judge went on to hold that an account of profits in the present case was not merely the excess of profits attributable to the wrongful use of the confidential information over and above what the defendants would have made from the sale of some style designed without using the confidential information:³²

Since the manufacture of bras of those styles necessarily and inevitably involves the use of confidential information . . . the defendants could not have manufactured [the bras] at all without the use of the confidential information.

However, this will not always be the case as it must be remembered that the defendant is to account only for what he made out of the breach of confidence or breach of contract and no more. Certainly in

²⁸ *Supra*; there are no reported cases which actually express this view, but see Jones, *loc. cit.*, who believes the precondition of knowledge before an account can be awarded should similarly apply to the area of trade secrets.

²⁹ *Supra*.

³⁰ [1964] 1 W.L.R. 96.

³¹ *Ibid.*, 107.

³² *Ibid.*, 108.

the *Peter Pan* case the defendant could not have made the bra at all without the confidential information so its profit was wholly attributable to its breach of duty. In other cases, however, a defendant may be able to show that he could have manufactured the article without using the confidential information but that he was able to manufacture it more economically with the information. Alternatively, he may plead that the confidential information contributed only partly to the success of his product. Thus, one can see coming to the fore the same considerations which were significant in *Colbeam Palmer Ltd. v. Stock Affiliates Pty. Ltd.* There the question was what profit was made out of the plaintiff's trademark. Here the question is what profit has the defendant made by means of his breach of confidence or implied contractual term. As under trademark law, the same considerations as to deductions for general overheads, advertising and the effect of delay in bringing an action apply.³³

IV. COPYRIGHT

The monetary remedies available in a copyright action are set out in s. 24 of the Copyright Act 1962. Section 24(1) states:

. . . 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.

The important question is whether the fact that these remedies are awarded under statute rather than general principles of law and equity alters the basis of their award in comparison to the related areas of trademark and patent law.

A. Damages

In *Beloff v. Pressdram Ltd.* Ungood-Thomas J. set down the basic measure of damages in copyright: "In infringement of copyright the basic measurement of damages is the depreciation caused by the infringement to the value of the copyright as a chose in action."³⁴ The principal head of damage is the loss of profits caused by the diversion of customers to the defendant. Beyond this the plaintiff may recover for any injury to the reputation of the original work. As Lord Wright M.R. said in *Caxton Publishing Co. Ltd. v. Sutherland Publishing Co. Ltd.*: "The value of a copyright may be seriously depreciated by the issue of a cheap and inferior infringement which vulgarises the work."³⁵

³³ Cf. the discussion ante at pp. 192-193.

³⁴ [1973] 1 All E.R. 241, 246.

³⁵ [1936] Ch. 323, 336.

In such cases the Court will estimate the value of the copyright before and after the infringement and then take the difference to assess the measure of damages. However, if such a criterion is unsuitable the damages should be based upon the fee which the plaintiff could have charged the infringer for a licence to use the material. Thus, in the case of an infringing book, if the defendant has sales of so many, the author will have lost so many royalties. If the plaintiff is a publisher he can ask the Court to assume (unless the infringer can show that this was not so) that each infringing sale has cost him a sale and so lost him the profit on that sale. In any case, the plaintiff is entitled to compensation for any monetary damage he has actually suffered that can fairly be attributed to the infringement. However, the Courts do reveal a great concern in ensuring that the plaintiff receives only what he has actually lost. For example, the defendant may be able to show that he made sales of the infringing work that the plaintiff would not have made even if the defendant had never entered the market. If there is only a partial use of a copyright work, the Court must again decide what loss it has caused the plaintiff in exact terms. In such a case, however, the Court does not make a meticulous calculation but decides on the quantum as a matter of impression:³⁶

But the process of assessment is not by the meticulous quantification of individual items, as the damages cannot, generally at any rate, be ascertained by an accounting operation. They are fixed by judgment, not by calculation, and judgment of the whole is likely to produce a less satisfactory result. They are a matter of impression rather than scientific or mathematical calculation.

Thus far one can see that the basis of a damages claim follows the same basic principles employed in the related areas of patent and trademark law. However, the similarities cease in the case of the innocent infringer. As has been seen in the area of trademark law,³⁷ the innocent infringer cannot be subjected to an account of profits for the period of his unknowing infringement, although the defence of innocence is of no avail when the plaintiff is claiming damages as his remedy. This, however, is not the case in copyright as s. 24(2) of the Copyright Act 1962 has altered the general principle. It states:

At the time of the infringement the defendant was not aware, and had no reasonable grounds for supposing, that it was an infringer of copyright, 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 the section or not.

Thus, whereas in trademark and trade secret law a plaintiff has to resort to a claim in damages as equity will not allow an account of profits for an unknowing act, in copyright law statute reverses the

³⁶ *Beloff v. Pressdram Ltd.*, supra, 272.

³⁷ See ante, p. 192.

position so that it is only an account of profits to which the plaintiff is entitled.

It is important to note that an objective test of reasonableness is employed in deciding whether the infringement was in fact innocent.³⁸ Perhaps the reason for this is because in the main bona fide occasions of unknowing infringement will be rare. Most "works" of recent origin are more or less bound to be copyright, and the infringer who copies them ought to have known that. An objective test, therefore, tends to put a stop to any spurious claims that the defendant was unaware that the plaintiff's work would attract the protection of copyright.

B. "Additional" Damages

Section 24(3) of the Copyright Act 1962 states:

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.

This issue of "additional" damages has been the subject of exhaustive comment by Ungoed-Thomas J. in *Beloff v. Pressdram Ltd.*,³⁹ and it has also received judicial comment in New Zealand in the case of *International Credit Control Ltd. v. Axelsen*.⁴⁰ These two judgments represent somewhat differing opinions as to what this new animal of additional damages really is. It is worth-while, therefore, to examine the two decisions separately and try to assess where the law in New Zealand stands in this area.

In *Beloff v. Pressdram Ltd.* Ungoed-Thomas J. looked closely at the issue of whether s. 24(3) confers statutory blessing on the award of aggravated or exemplary damages or whether these damages are excluded leaving s. 24(3) as the sole criterion for the award of further damages. Looking at earlier authorities one finds that exemplary damages were awarded in the copyright case of *Williams v. Settle*;⁴¹ the case, however, was decided before the House of Lords judgment in *Rookes v. Barnard*⁴² in which the application of exemplary damages was severely restricted. It is noticeable, however, that the wording of paragraph (b) of s. 24(3), a material consideration in the awarding

³⁸ This is shown by the words: "and had no reasonable ground for supposing."

³⁹ *Supra*.

⁴⁰ [1974] 1 N.Z.L.R. 695.

⁴¹ [1960] 1 W.L.R. 1072.

⁴² [1964] A.C. 1129.

of additional damages, is reminiscent of Lord Devlin's second category of exemplary damages in *Rookes v. Barnard*. Lord Devlin decided such damages were available where "the defendant's conduct has been calculated by him to make a profit for himself which may well exceed the compensation payable to the plaintiff."⁴³ Does this mean exemplary damages have been given statutory recognition by s. 24(3)? After looking at the authorities and the wording of the section, Ungood-Thomas J. concluded:⁴⁴

The subsection is directed to providing effective relief for the plaintiff. It is thus directed to purely compensatory damages, so that exemplary or punitive damages are outside its ambit.

His reasons for not allowing exemplary or aggravated damages to influence additional damages were as follows: (1) s. 24(3) makes no reference at all to exemplary or aggravated damages; (2) s. 24(3) already provides for the advantage obtained by the defendant from the plaintiff's property so there is no need to go outside the Act and look to exemplary damages; (3) s. 24(3) covers the area completely which formerly came under aggravated damages; (4) to gain additional damages the plaintiff must not have gained "effective relief" from a normal compensatory award. If aggravated damages were to be allowed to exist side by side with additional damages, there would be no such precondition of no "effective relief" before further damages could be awarded. This would have the effect of defeating the intentions of the legislature; and (5) s. 24(3) is a code for damages which are "additional" without providing a place for additional exemplary and aggravated damages outside the subsection.

Ungood-Thomas J. came to the conclusion that:⁴⁵

The substantial result is that the subsection excludes exemplary damages for infringement of copyright and replaces any aggravated damages that might otherwise have been obtainable for infringement of copyright.

Perhaps the factor that tipped the scales on the side of this conclusion was Ungood-Thomas J.'s view that whereas exemplary damages are awarded as punishment for the defendant's conduct, an award under s. 24(3) is purely compensatory in its nature. Finally, Ungood-Thomas J. dealt with the significance of the precondition to additional damages that "effective relief would not otherwise be available to the plaintiff." He held this phrase to mean that ". . . if effective relief is available to the plaintiff in respect of another course of action, relief cannot be given for it by way of additional damages for infringement of copyright."⁴⁶ Thus, he sees the precondition as alluding to cases where a

⁴³ *Ibid.*, 1226.

⁴⁴ *Supra*, 265.

⁴⁵ *Ibid.*, 266.

⁴⁶ *Ibid.*, 267.

party could have achieved relief by means of another cause of action.⁴⁷

This is quite different from the conclusion reached by Mahon J. in *International Credit Control Ltd. v. Axelsen*.⁴⁸ Mahon J. reached his decision independently of *Beloff v. Pressdram*, and as a result his conclusions as to s. 24(3) differ widely from those expressed by Ungoe-Thomas J. The plaintiff in the *Axelsen* case sought an account of profits and in addition a further award of damages under s. 24(3) of the Copyright Act. As has been stated above, the general principle is that damages and an account of profits are mutually exclusive.⁴⁹ Therefore, the plaintiff should, according to ordinary principles, claim additional damages only in conjunction with an award of normal compensatory damages and certainly not in addition to an account of profits. Surprisingly, counsel for the defendant failed to make any comment on this point, and although Mahon J. did not explicitly say that he considered the Act to have altered the basic principle so that additional damages can be awarded on top of an account of profits, nevertheless his choice of words seems to imply that this is the case.⁵⁰

The purpose of this enactment is to simplify and perhaps *liberalise* the law relating to recovery of pecuniary loss sustained by a plaintiff whose copyright has been infringed. The claim for an account of profits was *originally* a remedy ancillary to the granting of an injunction by a Court of equity and was an alternative remedy for damages for infringement. . . . The effect of s. 24 is therefore to preserve by subsection (1) the nature of existing remedies of an account of profits or enquiry as to damages, and at the same time to add the right to further damages prescribed by subsection (3).

In any event, Mahon J. found that the facts of the case before him did not warrant the award of additional damages. This means that in New Zealand it still remains open for a Court to decide that s. 24(3) has not, in fact, altered the basic common law and equity principles to the extent that the remedies of account of profits and damages can be mixed. It is respectfully submitted that in light of the reasoning in *Beloff v. Pressdram Ltd.*⁵¹ Mahon J.'s apparent stance should be rejected in favour of the traditional view that the two remedies should remain mutually exclusive.

Like Ungoe-Thomas J., Mahon J. expressed doubt as to whether s. 24(3) allows the award of exemplary damages, especially in light of *Rookes v. Barnard*.⁵² However, unlike Ungoe-Thomas J., he did see the subsection as contemplating "aggravated damages by contrast with mere compensation to the plaintiff."⁵³ Which view a New Zealand

⁴⁷ In this case an action in defamation would have provided "effective relief."

⁴⁸ *Supra*.

⁴⁹ See ante, p. 188.

⁵⁰ *Supra*, 703 (emphasis added).

⁵¹ *Supra*.

⁵² *Supra*.

⁵³ *Supra*, 703.

Court will follow in the future is uncertain, although it seems likely that Mahon J.'s view will be preferred. Our Courts have never shown quite the same dislike of aggravated damages as displayed by the English Courts⁵⁴ so it is somewhat unlikely that Mahon J.'s view will be considered inconsistent with local trends in this area of the law.

Mahon J. also differed from Ungood-Thomas J. in his interpretation of the "effective relief" precondition. As stated above, the latter judge considered "effective relief" to mean relief obtainable under some other cause of action.⁵⁵ Mahon J., however, considered "effective relief" to mean relief available under the copyright action. In other words, having regard to the circumstances, if the plaintiff has not received sufficient recompense for this loss by means of normal compensatory damages, he is entitled to "additional" damages under s. 24(3) whether or not another cause of action would have provided him with effective relief. It would again appear likely that Mahon J.'s interpretation will be preferred by New Zealand Courts. The result is that instead of allowing the statutory provision to act as a code completely replacing the existing law, it would act merely as a gloss on the existing principles governing aggravated damages.

C. Account of Profits

Account of profits in copyright is based on exactly the same principles as were identified in *Colbeam Palmer Ltd. v. Stock Affiliates Ltd.*⁵⁶ The Court will look at the profit which the defendant has made out of his infringement and award that profit to the plaintiff if it can be shown it was attributable to the infringement. Thus, if the defendant pirates a novel and sells it, he will be accountable for all his profit. If, however, he pirates only part of a work, the Court will assess what proportion of his profit is attributable to the infringement. In some cases although the infringing material only forms a portion of the defendant's work, it will be found that all of the profit made was attributable to the pirating. In other cases the infringing material will not contribute at all to the profit. The principles to be applied are thus the same in copyright as they are in trademark. The only exception is that under s. 24(2) of the Copyright Act it is no defence to a claim for an account that the infringement was committed unknowingly. Indeed, an account is the only monetary remedy available to the plaintiff if the defendant is able to prove to the satisfaction of the Court that the infringement was knowingly perpetrated.

⁵⁴ E.g., *Rookes v. Barnard*, supra; *Cassell & Co. Ltd. v. Broome* [1972] A.C. 1027.

⁵⁵ See ante, pp. 201-202.

⁵⁶ [1972] R.P.C. 303.

V. PATENTS

A. Damages

The principle on which damages should be assessed is that the plaintiff should be restored by monetary compensation to the position he would have occupied but for the wrongful acts of the defendant provided always that such loss as he proves is the natural and direct consequence of the defendant's acts.⁵⁷ Patentees derive their remuneration in respect of their inventions in two ways: first, by exploiting their property rights to enable them to obtain increased profits as manufacturers; and secondly, by permitting others to use their inventions under licence in consideration of royalty payments. These two situations naturally call for different criteria for measuring damages. The two measures are mutually exclusive for it has been laid down that, on the one hand, a plaintiff in the habit of manufacturing and not licencing cannot be awarded as damages royalties which he would never have exacted,⁵⁸ while, on the other hand, a plaintiff in the habit of licencing and not manufacturing cannot claim as damages manufacturing profits which he would never have made.⁵⁹

In *General Tire v. Firestone*⁶⁰ it was held that where a patent was exploited by the inventor by the granting of licences for royalty payments, the measure of damages would be the sums which the infringer would have paid by way of royalty if he had acted legally instead of illegally. This means ". . . 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."⁶¹ Assessment of damages by this means is usually a simple matter but in some cases it is not possible to prove that there is a normal or established licence royalty. The Court may regard the royalty which the plaintiff was in the habit of receiving from licensees as too low an amount on which to base the damages since the licensees paying this amount are often restricted in their use of the patented article.⁶² Here it is for the plaintiff to adduce evidence concerning normal trade practices in an effort to assist the Court. As was said in *General Tire v. Firestone*, when assessing damages the judge can take into account:⁶³

⁵⁷ *United Horse Shoe & Nail Co. Ltd. v. Stewart* (1888) 5 R.P.C. 260.

⁵⁸ *General Tire v. Firestone* [1975] 1 W.L.R. 819.

⁵⁹ *Penn v. Jack* (1867) L.R. 5 Eq. 81.

⁶⁰ *Supra*.

⁶¹ *Ibid.*, 825.

⁶² *British Motor Syndicate Ltd. v. Taylor* [1900] 1 Ch. 577.

⁶³ *Supra*, 827.

. . . any licences actually granted and the rates of royalty fixed by them, to estimate their relevance and comparability, to apply them so far as 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.

Where the patentee exploits his own invention to manufacture articles to sell at a profit, the effect of infringement will be to divert sales from the owner of the patent to the infringer. The measure of damages is, therefore, the profit which would have been made by the plaintiff if he had made the sales. This basis of damages clearly gives rise to greater difficulties of assessment than in the "royalty" cases. For example, infringing items may not actually compete with the plaintiff's patented product because of a difference in quality or price of the goods. This would mean that since the competing products are reaching totally different markets, the plaintiff in effect is not losing any sales at all. It may be that for some other reason the order would not have gone to the plaintiff in any case. This does not mean the defendant is excused from payment of substantial damages as he has still infringed the plaintiff's rights, but as was said in *General Tire v. Firestone*, "the object is to compensate the plaintiffs and not to punish the defendants."⁶⁴

There are, of course, other heads of damage under which the manufacturing patentee can claim. He can claim, for example, any loss of goodwill or business connection⁶⁵ for if the infringer sells an inferior item, he may do irreparable harm to the reputation of the patented article even to the extent of rendering it commercially valueless.⁶⁶ The plaintiff may claim losses resulting from the necessity to reduce the price of his product in order to meet the illegal competition. In such cases the plaintiff must establish that the reduction was necessitated by the defendant's wrongful competition and was not the result of the ordinary exigencies of the trade. This issue arose in *American Braided Wire Co. v. Thomson*⁶⁷ where the patent infringed was one for the manufacture of a particular form of bristle. No one else could produce it without infringing the patent. The plaintiffs did not reduce their prices until compelled to do so by the defendants, and it was held that the plaintiffs would have made but for the infringement all the sales they did make and also the sales made by the defendants in each case at the plaintiff's original prices. In contrast in *United Horse Shoe and Nail Co. v. Stewart*,⁶⁸ it was held that the price

⁶⁴ *Ibid.*, 824.

⁶⁵ There are no clear cases of such a recovery, but there are compelling analogies in passing off and infringement of trademark cases.

⁶⁶ Cf. ante, pp. 198-199.

⁶⁷ (1890) 7 R.P.C. 152.

⁶⁸ *Supra*.

reductions had not been made as a result of the defendant's competition. Cotton L.J. in *American Braided Wire Co. v. Thomson* said of the *Horse Shoe* case:⁶⁹

The plaintiffs had not merely followed the lead of the defendants in reducing their prices, but they had always gone a little before the defendants in reducing their prices, and had reduced their prices at below those at which the defendant's were selling. . . . The reduction of the price was not made by them in order merely to help themselves from not making what they ought to have made, but was made in consequence of the competition not only of the defendants, but of other persons in the market.

It must also be remembered that in certain circumstances price reductions will not have any detrimental effect on the plaintiff. This is because a higher turnover induced by lower prices may return just as much profit as if the plaintiff had maintained his higher prices with the resultant slower turnover. It was held in *American Braided Wire Co. v. Thomson* that this consideration may be taken into account.

The importance of the plaintiff's invention or of the portion of that invention which the defendant has taken, or the ease with which the defendant could have manufactured his goods without infringing is not material in the assessment of damages suffered by the plaintiff. If the defendant's acts are wrongful, the degree of their wrongfulness does not matter, and the defendant must pay such damages as the plaintiff suffered by the infringing acts. Where the infringement is a mere accessory of the article manufactured and sold by the defendant, the plaintiff is only entitled to recover damages in respect of that accessory alone. But where it constitutes an integral part of the machine as a whole, damages may be based on the fact that the plaintiff has lost an order for the whole machine and the profits of the whole machine must be taken into account. In other words, the patented part may be so important that without it the whole machine would lose the very properties which made it sell.

Damages are recoverable from the date of publication of the complete specification. However, damages may not be awarded against a defendant who proves that, at the date of the infringement, he was not aware and had no reasonable grounds for supposing that the patent existed. This defence of innocence is statutory and is found in s. 68(1) of the Patents Act 1953 which states:⁷⁰

In proceedings for the infringement of a patent, damages or account of profits shall not be awarded against a defendant who proves that at the date of the infringement he was not aware, and had no reasonable ground for supposing, that the patent existed. . . .

The defence of innocence is not available, however, to an infringer who has been informed of a patent application in respect of the article

⁶⁹ *Supra*, 160.

⁷⁰ See *Wilderman v. Berk* (1925) 42 R.P.C. 79 for an example of the application of the defence of innocent infringement.

in question. In *Benmax v. Austin Motor Co. Ltd.* it was stated:⁷¹

. . . a defendant who seeks to avail himself of the protection afforded by [s. 68(1)] must plead and prove a complete ignorance of the patent monopoly during the period in which the wrongful acts were being done.

The onus on the defendant to prove his acts were innocent is heavy as the Courts are wary of allowing any spurious defence to succeed.

B. *Account of Profits*

As in the other three areas considered, an account of profits is available as an alternative monetary remedy for any infringement. The basic principles as laid down in *Colbeam Palmer Ltd. v. Stock Affiliates Pty. Ltd.*⁷² are to be applied. Where the infringement is a mere accessory of the article manufactured by the defendant, the Court must decide how much profit was actually derived from the patented accessory. If the success of the whole article depended solely on the accessory, it can be inferred that the whole of the profit from the sales can be recovered subject of course to the normal limiting factors outlined in the *Colbeam Palmer* case. If the accessory was not the sole inducing cause of the article selling, the Courts will award what proportion of the profit it thinks was derived from the accessory. Unlike the statutory provisions in the Copyright Act 1962, s. 68(1) of the Patents Act 1953 makes innocent infringement a valid defence to an account of profits. Thus, patent law in this respect is brought more into line with trademark law than copyright. It still differs, however, in the respect that unlike trademark, the test of innocence by the terms of s. 68(1) is an objective one.

VI. CONCLUSION

It has not been the purpose of this paper to set out an exhaustive survey of the law of damages and account of profits in the four areas studied. Instead, it has been the writer's aim to show that although these four areas are related, nevertheless, they remain necessarily separate as they protect inherently different types of property. This is especially so with trade secrets. Although some of the differences which exist are present because of the different types of property involved, others are attributable to statutory alteration of the basic common law and equity principles. This is particularly evident in the area of innocent infringement. It is clearly apparent that there remain grey areas which require clarification. In copyright, for example, it is

⁷¹ (1953) 70 R.P.C. 143, 156.

⁷² [1972] R.P.C. 303.

uncertain exactly how the additional damages provision of s. 24(3) of the Copyright Act 1962 is to be read. Is it a code or is it to be regarded merely as a gloss on the pre-existing law? In the area of trade secrets wide confusion still reigns over the basis of assessment of damages. *Seager v. Copydex*⁷³ appears unfortunately to have promoted rather than allayed confusion on the matter. By contrast, trademark law appears to be in a relatively settled state, notably as a result of an extremely well-reasoned judgment by Windeyer J. in the *Colbeam Palmer* case.⁷⁴ Perhaps the only issue which requires clarification is the matter of including general overheads as expenses when assessing net profit. This is a question which needs to be settled as it is a matter of importance not only to trademark law but equally to trade secrets, patents and copyright. Patent law, like trademark, also appears to be in a rather more settled state, and this is perhaps attributable to the fact that the judiciary has been able to come to grips with the type of property rights involved much more readily than in the other three areas. A patented product contains none of the uncertain qualities which exist, for example, in a trademark. It is to be hoped that either the legislature or the judiciary will make a concerted attempt to come to terms with and resolve the uncertainties which do exist and thereby settle once and for all an area of the law which still remains somewhat in a state of flux.

⁷³ [1967] 1 W.L.R. 923.

⁷⁴ *Supra*.