



Neutral Citation Number: [2018] EWCA Civ 2812

Case No: A3/2018/0463

IN THE COURT OF APPEAL (CIVIL DIVISION)
ON APPEAL FROM THE HIGH COURT OF JUSTICE, CHANCERY DIVISION

Mr Justice Birss
HC-2016-000667

Royal Courts of Justice
Strand, London, WC2A 2LL

Date: 18 December 2018

Before :

LORD JUSTICE LEWISON
LADY JUSTICE KING
and
LORD JUSTICE DAVID RICHARDS

Between :

PHONOGRAPHIC PERFORMANCE LIMITED	<u>Appellant</u>
- and -	
ANDREW ELLIS TRADING AS BLA BLA BAR	<u>Respondent</u>

MR GWILYM HARBOTTLE (instructed by **GSC Solicitors LLP**) for the **Appellant**
MR ANDREW ELLIS (appeared in person)

Hearing date : 12 December 2018

Approved Judgment

Lord Justice Lewison:

1. Section 97 (2) of the Copyright Designs and Patents Act 1988 (“the 1988 Act”) empowers a court to award additional damages in cases of flagrant copyright infringement. In a line of cases decided at first instance, judges of the Chancery Division have awarded such damages at the same time as imposing a suspended sentence of imprisonment for contempt in breaching an injunction previously granted to restrain copyright infringement. Phonographic Performance Ltd (“PPL”), the collection society, asked Birss J to award such damages following his imposition of a suspended prison sentence on Mr Ellis for breach of an injunction previously granted restraining copyright infringement by the unlicensed playing of recorded music in public. He refused on the ground that it was inappropriate to award such damages at the same time as imposing a prison sentence, on the basis that the court should not fine a contemnor at the same time as imposing a suspended custodial sentence. The judge’s judgement is at [2018] EWHC 821 (Pat). The judge granted permission to appeal, saying that there was a “self-contained but important point of principle”. PPL argued that the principle that the judge formulated is wrong. The point of principle is an important one for PPL, because it brings many such claims every year.
2. At the conclusion of the hearing, we indicated that we would not award additional damages on the facts of this case, with the consequence that the appeal would be dismissed. We said that we would put our reasons in writing. These are my reasons for joining in that decision.
3. As section 1 (1) of the 1988 Act states, copyright is a property right. It is an exclusive right to do the acts specified as the restricted acts in relation to the work protected by copyright. In essence, those acts are rights to stop other people doing things to the work (like copying it or communicating it to the public). Because copyright is a property right, someone who does one of the restricted acts without the consent of the copyright owner infringes that property right. The infringement of that right gives the property owner a cause of action. The remedies available to him are (i) an injunction to restrain any further invasion of his property right; (ii) damages to compensate him for any loss that he might have suffered as a result of that invasion and (iii) in the alternative to (ii), an account of any profit that the infringer may have made as a result of the infringement. If the court awards damages, then section 97 (2) may come into play. It provides:

“(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.”
4. Because damages awarded under section 97 (2) are described as “additional” damages, it has been held that they cannot be awarded where the copyright owner seeks an account of profits rather than damages: *Redrow Homes Ltd v Bett Brothers*

plc [1998] RPC 793. But in the present case Birss J did award compensatory damages, so that restriction did not apply.

5. Where the court awards compensatory damages it is compensating the property owner for invasions of his property right that have already happened. Where it grants an injunction it is making an order to prevent future invasions of the property right. (There are cases in which as a matter of discretion the court refuses to grant an injunction and makes an award of damages instead; in which event it is able to compensate for future invasions of the property right. But that is very rare in intellectual property cases).
6. Once the court has granted an injunction it has its own interest in ensuring that its orders are obeyed. As Jackson LJ put it in *JSC BTA Bank v Solodchenko (No 2)* [2011] EWCA Civ 1241, [2012] 1 WLR 350 at [45]:

“The sentence for such contempt [i.e. civil contempt] performs a number of functions. First, it upholds the authority of the court by punishing the contemnor and deterring others. Such punishment has nothing to do with the dignity of the court and everything to do with the public interest that court orders should be obeyed. Secondly, in some instances it provides an incentive for belated compliance, because the contemnor may seek a reduction or discharge of sentence if he subsequently purges his contempt by complying with the court order in question.”
7. What punishment to impose upon a contemnor is a matter between the court and the contemnor. But the sentence is not designed to compensate the claimant; and the mere fact that a contempt of court has been committed will not of itself entitle the claimant to a financial remedy. In the event that the court imposes a fine on a contemnor, the fine will be paid to the state: not to the claimant. Sometimes, however, the contempt will involve an independent wrong against the claimant. Thus where an action was settled on terms that included an undertaking which was subsequently broken, Vinelott J awarded damages for breach of the consent order (which had contractual effect) upon a motion to commit: *Midland Marts Ltd v Hobday* [1989] 1 WLR 1143. That was one of the cases referred to with approval in *JSC BTA Bank v Ablyazov (No 14)* [2018] UKSC 19, [2018] 2 WLR 1125 at [23] in support of the proposition that “breach of an order of the court is actionable where it gives effect to an underlying private law obligation which is itself actionable.”
8. For some purposes (e.g. the burden of proof and the grant of legal aid) contempt proceedings are treated as criminal proceedings. For other purposes (e.g. rules of evidence) they are treated as civil proceedings. But criminal procedure is sometimes applied by analogy to applications to commit for civil contempt.
9. The judge based his decision on the proposition that:

“.. there is very clear authority that the court should not fine a contemnor at the same time as imposing a custodial sentence as punishment for a contempt.”

10. It is not, however, clear what authority he had in mind. Clearly, however, he saw an analogy between an award of additional damages under section 97 (2) and the imposition of a fine. So I think that the first thing to consider is whether that is an appropriate analogy. For that purpose, we need to consider different types of damages.
11. Aggravated damages are damages awarded for a tort as compensation for the claimant's mental distress, where the manner in which the defendant has committed the tort, or his motives in so doing, or his conduct subsequent to the tort, has upset or outraged the claimant. Such conduct or motive aggravates the injury done to the claimant, and therefore warrants a greater or additional compensatory sum.
12. Exemplary damages on the other hand are intended to punish. As Lord Nicholls put it in *Kuddus v Chief Constable of Leicestershire* [2001] UKHL 29, [2002] 2 AC 122 at [51]:

“Exemplary damages or punitive damages, the terms are synonymous, stand apart from awards of compensatory damages. They are additional to an award which is intended to compensate a plaintiff fully for the loss he has suffered, both pecuniary and non-pecuniary. They are intended to punish and deter.”
13. The power to award additional damages entered the statute book in section 17 of the Copyright Act 1956. The section was introduced as a result of the recommendation of the Gregory Report of the Copyright Committee stating:

“the court should be given discretionary power to impose *something equivalent to exemplary damages* in cases where the existing remedies give inadequate relief.” (Emphasis added)
14. Section 17 (3) provided:

“(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.”
15. This court considered section 17 in *Williams v Settle* [1960] 1 WLR 1072. That was a case in which, in breach of copyright, wedding photographs were passed to a national newspaper. The circumstances of their publication were particularly distressing. The defendant's benefit from the breach was £15. In the county court the judge awarded

what he called “damages that are really vindictive” of £1,000; and this court upheld his award. Sellers LJ said at 1082:

“In the present action the judge was clearly justified, in the circumstances in which the defendant, in breach of the plaintiff’s copyright, handed these photographs to the press knowing the use to which they were going to be put, in awarding substantial and heavy damages of a punitive nature. The power so to do, quite apart from the ordinary law of the land, is expressly given by statute.”

16. The statute in question was section 17. Willmer LJ said at 1086:

“The second question that arises is whether this is an appropriate case for the award of exemplary as opposed to compensatory damages. I am abundantly satisfied, for the reasons already stated by my Lord which I need not repeat, that this was a proper case in which to award exemplary damages.”

17. Harman LJ said at 1087:

“The new Copyright Act specifically provides by section 17 (3) that punitive damages may be awarded. If ever there was a copyright case in which that was appropriate it is this one.”

18. The House of Lords considered the question of exemplary damages in its seminal decision in *Rookes v Barnard* [1964] AC 1129. Lord Devlin referred to *Williams* and said at 1225:

“My Lords, I express no view on whether the Copyright Act, 1956, authorises an award of exemplary, as distinct from aggravated, damages. But there are certainly two other Acts of Parliament which mention exemplary damages by name.”

19. He went on to restrict an award of exemplary damages to two situations: (i) oppressive, arbitrary or unconstitutional acts by government servants; (ii) where the defendant's conduct had been calculated by him to make a profit for himself which might well exceed the compensation payable to the claimant. But he added that:

“To these two categories which are established as part of the common law there must of course be added any category in which exemplary damages are expressly authorised by statute.”

20. Given that Lord Devlin refrained from expressing any view on whether section 17 (3) authorised an award of exemplary damages it cannot, in my judgment, be said that he was ruling it out of the additional category.

21. *Broome v Cassell & Co Ltd* [1972] AC 1027 was a case of libel damages; but Lord Hailsham LC did comment on the recovery of damages for copyright infringement. At 1081 he said:

“Before turning to the so-called "considerations" I desire to say a word concerning the decisions in *Williams v Settle* ... upon which Lord Devlin also commented. *Williams v Settle* was a case under section 17 (3) of the Copyright Act 1956. I agree with Lord Devlin that it is for consideration in the light of subsequent cases whether that section, which does not use the phrase "exemplary damages," does in fact give a right to damages which are exemplary in the narrower sense used since *Rookes v Barnard*.... If it does, the case should be regarded as a second category case, since the defendant's motive was profit. If it does not, and if it is to be regarded as still authoritative, *Williams v Settle* can only be regarded as an extreme example of aggravated damages, though the language of the county court judge was so strong as to lead me to think that I would not myself have been prepared to make so large an award.”

22. Lord Kilbrandon said at 1134:

“Finally, Lord Devlin... doubted whether section 17 (3) of the Copyright Act 1956 authorised an award of exemplary damages: in my opinion it did not.”

23. All the observations to which I have referred were *obiter* and, with the possible exception of Lord Hailsham, none of their Lordships gave reasons for their preferred view; and even he was non-committal.

24. As I have said, in its initial iteration the power to award additional damages was restricted to cases in which the court was satisfied that the claimant would not otherwise be entitled to “effective relief”, although what amounted to “effective relief” was not further defined. In 1977 the Whitford Committee reported on copyright law. At that stage the law relating to exemplary damages was as held by the House of Lords in *Rookes v Barnard* and *Broome v Cassell & Co Ltd*. The report stated:

“[704] 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.” (Emphasis added)

25. The history of the legislative changes was traced by Laddie J in *Cala Homes (South) Limited v Alfred McAlpine Homes East Limited (No. 2)* [1996] FSR 36. His decision that additional damages could be awarded where a claimant was seeking an account of profits only was overruled in *Redrow Homes*. But much of his decision remains valuable and, in my judgment, correct. At 42 he said:

“The better view appears to be that the 1956 Act created a form of relief which was *sui generis* to copyright law. Whether that relief could be most likened to aggravated damages or exemplary damages as those terms were finally used in *Rookes v Barnard* is not a matter which the court now needs to resolve. Nevertheless it is true that the use of the words “is satisfied that effective relief would not otherwise be available to the plaintiff” in section 17(3) led courts towards the view that these statutory damages were more akin to compensatory (i.e. aggravated) damages than punitive (i.e. exemplary) ones.”

26. At 43, having referred to the report of the Whitford Committee, he said:

“By the time that was written, the difference between aggravated and exemplary damages at common law was well appreciated. It appears that what the Committee was recommending was the retention of a form of financial relief which could be likened to exemplary damages at common law. Its purpose was to act as a deterrent and it was not tied to any concept of compensation.”

27. As I have said, in *Redrow Homes* the House of Lords ruled that additional damages could not be claimed where the only other relief sought was an account of profits; but in *obiter* comments Lord Jauncey left open the question whether damages awarded under section 97 (2) were punitive or compensatory, while Lord Clyde thought that they were probably aggravated damages. Again, like other Law Lords before him, Lord Clyde gave no reasons for his view.

28. In *Michael O'Mara Books Ltd v Express Newspapers plc* [1999] FSR 49 Neuberger J said at 57, echoing Laddie J:

“It is an open question whether damages awarded pursuant to section 97(2) of the 1988 Act (which I shall call “additional damages”) are exemplary damages or aggravated damages or, as I am inclined to think, a separate category of damages which may have some features which are similar to those of exemplary or aggravated damages.”

29. In *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] EWHC 409 (Ch), [2002] RPC 49 Pumfrey J returned to the question. Having considered the authorities Pumfrey J held at [51]:

“There is no reason why a purely punitive, or exemplary, element in an award of damages should be appropriate, given that there is a relevant statutory offence and that the infringer might in a case of concurrent copyrights (as in the case of a counterfeiter of compact discs, for example) be exposed to successive actions by the owners of the different, copyrights each seeking punishment in respect of their interest. ...On the other hand, the section is drafted in the widest terms and, although it is not concerned with punitive damages, it permits, in my judgment, an aggravation at common law. In particular, it permits an element of restitution having regard to the benefit gained by the defendant, and I should envisage such an award being made where the normal compensation to the claimant leaves the defendant still enjoying the fruits of his infringement. Such an award overlaps with the alternative remedy of an enquiry as to damages to some extent, but it is not co-extensive with it. In particular, it permits benefit to the defendant which forms no part of the financial profits to be taken into account, as for example in a case where the defendant has established himself in the market and generated a goodwill by a flagrant infringement. Furthermore, the fact that the flagrancy of the infringement, with its overtones of dishonesty and intentional wrongdoing, is one of the factors specifically mentioned may well entitle the court to deal with the question of damages as it would in other cases of intentional wrong-doing...”

30. The first sentence of the quoted passage is to some extent ambiguous; but Pumfrey J himself clarified what he meant in *PPL v Reader* [2005] EWHC 416 (Ch), [2005] FSR 42 in which he said at [15]:

“I have recently discussed the principles applicable to an award of additional damages in very different circumstances in *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd*.... In that case I expressed the view (see [51] ff.) that it is permissible for an award of statutory additional damages to include a punitive element provided that the purpose of the award of damages is not solely to punish the defendant.”

31. As Laddie, Prescott & Vitoria point out in *The Modern Law of Copyright* (5th ed) at para 26.29 footnote 6, the law relating to the Australian equivalent to section 97 (2) (section 115 (4) of the Copyright Act 1968) is different. The courts of Australia regard themselves as awarding exemplary damages under their equivalent statutory provision. However, that is because Australian courts have rejected the limitations on the award of exemplary damages laid down by the House of Lords in *Rookes v Barnard*, which does not represent the common law of Australia: see *Polygram Pty Ltd v Golden Editions Pty Ltd* [1997] FCA 686. As Laddie, Prescott & Vitoria also point out, the factors singled out for mention in section 97 (2) are odd bedfellows. Benefit to the defendant is not, in general, relevant to an award of damages in tort, but

is more commonly achieved in intellectual property cases by an account of profits. Yet *Redrow Homes* has ruled out an award under section 97 (2) where an account of profits is ordered. Flagrancy, as they also observe, “seems to have more to do with chastising the defendant than compensating the claimant.”

32. In *Eaton Mansions (Westminster) Ltd v Stinger Compania de Inversion SA* [2013] EWCA Civ 1308, [2014] HLR 4 this court held that aggravated damages are not recoverable by a limited company or other non-human claimant. If, therefore, the true view is that damages under section 97 (2) are damages in the nature of aggravated damages, then if *Eaton Mansions* applies to them, they are only recoverable by natural persons who are not the most frequent of claimants in intellectual property cases.
33. It is these considerations, no doubt, that prompt the editor of McGregor on Damages (20th ed) to support the view (a) that damages awarded under section 97 (2) are exemplary damages and (b) that they are authorised by statute. As he puts it at para 48-065 (following the views of Mr McGregor himself: 19th ed para 46-062):

“It is thought that for flagrant infringements the case for today regarding the statute as applying to exemplary damages rather than to aggravated damages is a compelling one. The basis for this is the perceived inappropriateness of awarding aggravated damages, which are directed to compensation for mental distress and injured feelings, to companies which have no feelings and do not suffer distress. For some 30 years there has been uncertainty at first instance as to whether the impersonal nature of a company debarred it from an award of aggravated damages but at last the question has come before the Court of Appeal which in [*Eaton Mansions*] has held without reservation that aggravated damages are not recoverable by corporate claimants. Now it so happens that claimants for additional damages on account of the flagrancy of the particular infringement tend to be companies and not individuals. Indeed none of the claimants in the known cases where flagrancy damages have been awarded have been individuals; they have been corporate bodies and in one case a trust, also without feelings. Unless these cases are to be regarded as wrongly decided, and there is no reason why they should be, it follows that the awards in them are to be regarded as awards of exemplary damages. Moreover, exemplary damages are still awardable after *Rookes v Barnard*, where there is statutory authorisation, being one of the three categories of their survival. It is true that Lord Devlin phrased this category in terms of exemplary damages which are expressly authorised by statute, so that this statutory provision would fall outside its ambit. Yet it is significant that he himself said in *Rookes* that he reserved his opinion as to whether the then 1956 Act “authorises an award of exemplary, as distinct from aggravated, damages”, and it is surely probable that when the provision for additional damages on account of flagrancy was introduced in

1956, still in the heyday of exemplary damages, the framers of the Act had exemplary damages in mind.”

34. One feature which seems to me to be important, as it did to Laddie J, is that both *Rookes v Barnard* and *Broome v Cassell* were decided *before* the Whitford committee reported to Parliament. Yet the committee recommended the strengthening of the power to award what it expressly described as “exemplary” damages; and Parliament accepted that recommendation when passing the 1988 Act. It seems improbable that Whitford J, who chaired the committee, was unaware of those two decisions of the House of Lords; yet the committee’s report still described the damages as “exemplary”. It is also pertinent to point out that the substantive change made as a result of the report of the Whitford Committee was to remove the restriction on the award of additional damages to cases in which effective relief would not otherwise be available to the claimant. The implication of that change, as it seems to me, is that the power to award additional damages now extends to cases in which effective relief *is* available to a claimant. On ordinary principles applicable to the award of compensatory damages, a claimant would be entitled to damages for all losses, both pecuniary and non-pecuniary. Aggravated damages are themselves a form of compensatory damages. Lord Devlin himself made this clear in *Rookes v Barnard*. He said at 1221:

“Moreover, it is very well established that in cases where the damages are at large the jury (or the judge if the award is left to him) can take into account the motives and conduct of the defendant *where they aggravate the injury done to the plaintiff*. There may be malevolence or spite or the manner of committing the wrong may be such as to injure the plaintiff’s proper feelings of dignity and pride. These are matters which the jury can take into account in assessing the appropriate *compensation*.” (Emphasis added)

35. Likewise, at 1228 he said:

“In a case in which exemplary damages are appropriate, a jury should be directed that if, but only if, the sum which they have in mind to award as compensation (*which may, of course, be a sum aggravated by the way in which the defendant has behaved to the plaintiff*) is inadequate to punish him for his outrageous conduct, to mark their disapproval of such conduct and to deter him from repeating it, then it can award some larger sum.” (Emphasis added)

36. It must follow that a claimant *would* recover effective relief if he were to be awarded aggravated damages. That being so, it seems to me that unless the power to award additional damages under section 97 (2) is to be regarded as nugatory, it must be available in cases going beyond aggravated damages. That has the consequence that the damages awarded under section 97 (2) may include damages designed to punish or deter. In addition, the power to award additional damages under section 97 (2) is not only triggered by flagrancy. It may also be awarded where the court considers that the infringer has derived benefit from the infringement. That is, on the face of it, unfettered by any consideration of whether the infringer has calculated that any

damages he might be liable to pay would be less than his expected profit from the infringement. In other words, using modern taxonomy, an award of damages under section 97 (2) may be, either in whole or in part, what are now called exemplary damages; or, either in whole or in part, what are now called restitutionary or disgorgement damages. Both factors are singled out for special mention although under the general law of damages they are based on different principles. Accordingly, in my judgment, damages awarded under section 97 (2) do not need to be shoehorned into existing general legal taxonomy. They are simply, as Laddie and Neuberger JJ held, a form of damages authorised by statute. Their legal character is *sui generis*.

37. It follows, in my judgment, that additional damages awarded under section 97 (2) may be partly or indeed wholly punitive. Accordingly, I consider that, to the extent that damages awarded under section 97 (2) are designed to be punitive, the judge was entitled to regard the imposition of a fine as a suitable analogy. However, it is no more than an analogy. Damages awarded under section 97 (2) are not in fact a fine. As I have said, they are a *sui generis* award permitted by Act of Parliament; and if paid, they will be paid to the claimant rather than to the state.
38. Mr Harbottle, for PPL, stressed the utility of an award of additional damages under section 97 (2). They serve a valuable deterrent effect both on the infringer in the particular case under consideration; and also more widely in that they send the general message that infringement does not pay. In the case of a collection society like PPL whose whole business is the granting of copyright licences, and the policing of compliance with copyright, they may also enable a claimant to recover a contribution towards internal administrative costs which would not otherwise be recoverable as compensatory damages; because staff time had not been *diverted* from normal business activities: *Aerospace Publishing Ltd v Thames Water Utilities Ltd* [2007] EWCA Civ 3, [2007] Bus LR 726 at [84] and [86]. I would accept these submissions. Mr Harbottle also submitted that an award of additional damages could be made to make up for any shortfall between the litigation costs actually incurred and those which were allowed on an assessment. So far as this last submission is concerned, in my judgment it is contrary to the principle established in *Cockburn v Edwards* (1881) 18 Ch D 449 that a litigant cannot recover as damages any shortfall in taxed or assessed costs in the very action in which those costs are incurred.
39. I should at this point mention Directive 2004/48 (The Enforcement Directive); transposed into domestic law by the Intellectual Property (Enforcement etc) Regulations 2006. That Directive was intended to provide minimum standards of remedy across the EU for infringements of intellectual property rights covered by the Directive (which include copyright). Article 2 provides:

“1. Without prejudice to the means which are or may be provided for in Community or national legislation, in so far as those means may be more favourable for rightholders, the measures, procedures and remedies provided for by this Directive shall apply, in accordance with Article 3, to any infringement of intellectual property rights as provided for by Community law and/or by the national law of the Member State concerned.”

40. On the face of it, therefore, a remedy given by section 97 (2), if more favourable to a right holder, is not affected by the Directive. That was the conclusion reached by HHJ Hacon in *Absolute Lofts South West London Ltd v Artisan Home Improvements Ltd* [2015] EWHC 2608 (IPEC), [2017] ECDR 6; and, subject to one qualification, I agree with him. In (Case C-367/15) *Stowarzyszenie "Oławska Telewizja Kablowa" (OTK) v Stowarzyszenie Filmowców Polskich (SFP)* [2017] ECDR 16 the CJEU considered the compatibility of Polish legislation with the Directive. Under that legislation a collecting society was entitled to recover by way of damages twice the licence fee that it would have charged for a licence to broadcast copyright works. The CJEU held that that legislation was compatible with the Directive. In the course of its judgment it said:

“[25] Accordingly, art.13(1)(b) of Directive 2004/48 must be interpreted as not precluding national legislation, such as that at issue in the main proceedings, which provides that the holder of economic rights of copyright that have been infringed may require the person who has infringed those rights to compensate for the loss caused by payment of a sum corresponding to twice the amount of a hypothetical royalty.

[26] That interpretation cannot be called into question by the fact, first, that compensation calculated on the basis of twice the amount of the hypothetical royalty is not precisely proportional to the loss actually suffered by the injured party. That characteristic is inherent in any lump-sum compensation, like that expressly provided for in art.13(1)(b) of Directive 2004/48.

[27] Nor, secondly, is that interpretation called into question by the fact that Directive 2004/48, as is apparent from recital 26, does not have the aim of introducing an obligation to provide for punitive damages.

[28] Contrary to the view that the referring court appears to take, *the fact that Directive 2004/48 does not entail an obligation on the Member States to provide for “punitive” damages cannot be interpreted as a prohibition on introducing such a measure.*

[29] In addition, without there being any need to rule on whether or not the introduction of “punitive” damages would be contrary to art.13 of Directive 2004/48, it is not evident that the provision applicable in the main proceedings entails an obligation to pay such damages.” (Emphasis added)

41. That ties in with article 3 (2) of the Directive which states that remedies must be “effective, proportionate and dissuasive”. However, the court added this warning:

“[31] It is admittedly possible that, in exceptional cases, payment for a loss calculated on the basis of twice the amount of the hypothetical royalty will exceed the loss actually

suffered so clearly and substantially that a claim to that effect could constitute an abuse of rights, prohibited by art.3(2) of Directive 2004/48. It is apparent, however, from the Polish Government's observations at the hearing that, under the legislation applicable in the main proceedings, a Polish court would not be bound in such a situation by the claim of the holder of the infringed right."

42. It may be, therefore, that a particularly egregious award of exemplary damages would amount to an abuse of rights.
43. There is also some help to be gained by considering the inter-relationship between an award of exemplary damages at common law and criminal punishment arising out of the same facts.
44. In *Borders (UK) Ltd v Commissioner of Police of the Metropolis* [2005] EWCA Civ 197 Mr Jordan was sued by eight major book retailers for their losses of thousands of new books stolen from them by shoplifters and sold by him from his market stalls. He was convicted of conspiracy to steal books and of handling stolen books and sentenced to 30 months' imprisonment. An application was made in the criminal proceedings for a compensation order in favour of the booksellers under section 130 of the Powers of Criminal Courts Act 2000. In parallel a civil action was brought, and while Mr Jordan was in gaol, judgment was entered on the claim for damages to be assessed. As another part of the criminal process, confiscation proceedings were initiated in the Crown Court under the Criminal Justice Act 1988. Those were adjourned pending appeal in the civil proceedings. The Master assessed damages in the sum of £100,000. On appeal one of the arguments for Mr Jordan was that the Master's award exposed him to double jeopardy, because of the adjourned confiscation proceedings. He does not appear to have advanced the argument that the question of double jeopardy arose because of his sentence of imprisonment. Sedley LJ gave the argument short shrift. He said, at [17]:

"The argument from double jeopardy is not in my judgment a sound one. The convictions were a legitimate part of the evidence in support of the civil claim, but there is no duplication of penalty. If the £100,000 award of exemplary damages stands, the appellant's available assets will be depleted by that amount by the time the matter returns to the Crown Court for completion of the confiscation proceedings. If confiscation does not reach all his assets, while this court cannot dictate what is to happen, it can confidently anticipate that Mr Jordan will not be mulcted in the same sum twice."

45. Rix LJ said at [41]:

"It is arguable that the function of exemplary damages is nowadays better left to the confiscation regime, at any rate where there are parallel civil and criminal proceedings. However, the statutory regime has done nothing explicit to discourage the civil process, and I agree with what Sedley and May LJ have said about the interrelationship of the Criminal

Justice Act 1988 and Master Leslie's award in this case. In my judgment there is no danger in practice that Mr Jordan will be required to pay the £100,000 twice.”

46. May LJ said at [45] to [46]:

“[45] I was at first attracted by Mr Hellman's twin submissions, on behalf of Mr Jordan, (a) that the master should not have awarded exemplary damages as a scarcely concealed substitute for additional compensatory damages which the claimants did not claim and did not attempt to quantify; and (b) that exemplary damages, being punitive, were quite inappropriate in this case, when Mr Jordan has been punished by imprisonment, and is very probably going to be punished further by a swingeing confiscation order under sections 71 and 72AA of the Criminal Justice Act 1988.

[46] I am, however, persuaded by Mr Convey to the contrary. First, in my judgment, Part VI of the 1988 Act was not intended to negate a proper claim for exemplary damages in civil proceedings. Section 71(1C) may not literally prohibit the Crown Court from making a confiscation order which overlaps a claim by the victim in civil proceedings. But it plainly contemplates that the victim's proper civil claims are to be preserved and is a strong indication that the Crown Court should usually avoid double counting—see also the discretionary safeguards in section 72AA. In addition, at least in a case in which the defendant's benefit from criminal conduct exceeds his realisable assets, the amount of any judgment in civil proceedings will reduce the defendant's realisable assets, and thus reduce the amount of the confiscation order—see section 71(6).”

47. It follows that the mere fact that a person has been imprisoned, or is at risk of a confiscation order, does not preclude the recovery of exemplary damages. That was also the view of this court in *Axa Insurance UK plc v Financial Claims Solutions Ltd* [2018] EWCA Civ 1330, [2019] RTR 1. If the fact of actual imprisonment does not preclude the recovery of exemplary damages, *a fortiori* nor does the imposition of a suspended sentence.
48. However, where the criminal punishment has itself been financial, the courts (both criminal and civil) must take care to ensure that the defendant does not pay twice for the same damage. Indeed, the fact that a defendant has been fined may lead the court to decline to award exemplary damages: see *AB v South West Water Services Ltd* [1993] QB 507, 527 (overruled on a different point) and *Devenish Nutrition Ltd v Sanofi-Aventis SA* [2007] EWHC 2394 (Ch), [2009] Ch 390 (not appealed on this point).
49. I deal next with the options open to a court when exercising its jurisdiction to punish contempt of court consisting of a breach of an injunction. These originally derive from the court's inherent jurisdiction; and are subject to section 14 of the Contempt

of Court Act 1981. The range of options include the imposition of a prison sentence (either immediate or suspended); the sequestration of the property of a corporation and the imposition of a fine.

50. As I have said, the judge considered that it was wrong in principle to impose a fine in addition to a suspended term of imprisonment. In so saying, he drew an analogy with the criminal law. In terms of sentencing for criminal offences, section 163 of the Criminal Justice Act 2003 provides:

“Where a person is convicted on indictment of any offence, other than an offence for which the sentence is fixed by law or falls to be imposed under section 110(2) or 111(2) of the Sentencing Act or under section 224A , 225(2) or 226(2) of this Act, the court, if not precluded from sentencing an offender by its exercise of some other power, may impose a fine instead of *or in addition to* dealing with him in any other way in which the court has power to deal with him, subject however to any enactment requiring the offender to be dealt with in a particular way.” (Emphasis added)

51. In deciding whether or not to impose a fine in addition to a custodial sentence, the court must take into account the offender’s ability to pay. It is wrong in principle to impose a fine which the offender cannot pay, since that will result in his serving a default term of imprisonment in addition to any term actually imposed on him, without parole: *R v Maund* (1980) 2 Cr App Rep (S) 289. However, the Court of Appeal has upheld a combined sentence of a custodial term plus a fine on top: *R v Martindale* [2014] EWCA Crim 1232. Until the introduction of legislation permitting the making of orders designed to strip a convicted offender of any profit arising out of the offence, the courts would impose fines in addition to immediate custodial sentences as “a rough and ready method of confiscating the profits of crime”: *R v Garner* [1986] 1 WLR 73.

52. Equally, it is wrong to impose a sentence of imprisonment in lieu of a fine on the ground that the contemnor cannot pay the fine. In *Re M (Children)* [2005] EWCA Civ 615, [2005] 2 FLR 1006 the father had committed deliberate breaches of a court order. The sentencing judge said:

“A fine is not, in my judgment, appropriate because you are known to be of very limited means and there is at the moment a costs order against you of some substance. No order is not appropriate because of the attitude you have, as I have just described it, to this order and indeed any order which does not fit with your view of what should happen; a view not shared by CAF/CASS or Social Services or indeed the court hitherto. So I do take a serious view of this.

The appropriate sentence is, in my judgment, a custodial one, but suspended. The sentence will, accordingly, be one of seven days' imprisonment, suspended for six months on terms that you comply with whatever orders of the court may have penal notices attached to them.”

53. This court set aside that sentence. As Ward LJ explained at [19]:
- “There are two errors in his approach. The court does not impose a suspended custody material sentence unless first satisfied that a custodial sentence would be justified, and secondly, you should not impose imprisonment simply because the defendant has not the means to pay a fine. For that reason, the judge erred and his sentence should be quashed.”
54. However, that case does not say that a fine cannot be combined with a custodial sentence in an appropriate case; and cases in the criminal courts have upheld that practice. There is, in my judgment, equally no objection in principle to the combination of a fine and a custodial sentence in a case of contempt. In *Ex p Fernandez* (1861) 10 CBNS 3 Hill J imposed a sentence for contempt consisting of a fine of £500 and a term of imprisonment. That sentence was upheld by the Court of Queen’s Bench. *Re A Special Reference from the Bahama Islands* [1893] AC 138 was a reference to the Privy Council. The Chief Justice of the Bahamas was offended by an anonymous scurrilous letter about him published in a local newspaper. He summoned the editor to see him and asked for the identity of the correspondent. When the editor refused the Chief Justice sentenced him to be kept in custody during his (the Chief Justice’s) pleasure and to pay a fine of £40. The Privy Council was asked three questions by the Secretary of State for the Colonies, one of which was whether the sentence was lawful. On the assumption that contempts had been committed, their Lordships (sitting as a committee of 11 judges including the Lord Chancellor, the Lord Chief Justice and the Master of the Rolls) reported that the sentences were lawful. Although those were cases of criminal contempt, I can see no reason to suppose that civil contempt is different.
55. That is illustrated by *Jennison v Baker* [1972] QB 52. That was a case in which in an action for damages for breach of a covenant for quiet enjoyment an injunction was granted restraining the landlord from evicting the tenants otherwise than by due process of law. The county court judge heard a subsequent application to commit together with the underlying action. He awarded exemplary damages for the breach of covenant; and committed the landlord to prison. This court upheld his decision.
56. In *PPL v Fletcher* [2015] EWHC 2562 (Ch) Arnold J awarded damages under section 97 (2) in addition to imposing a suspended custodial sentence. In *PPL v Miller* [2016] EWHC 3738 (Ch) the judge himself awarded damages under section 97 (2) at the same time as imposing a suspended custodial sentence. Those decisions and others to similar effect are consistent with the view expressed by the Privy Council.
57. I do not, therefore, consider that the proposition that underlay the judge’s decision was right, either as a matter of the criminal law or as a matter of the civil law. It follows, in my judgment, that his exercise of discretion proceeded on a flawed basis, with the consequence that we are entitled to exercise the discretion again.
58. That, then, leads to the question whether we ought now to award additional damages under section 97 (2). In the ordinary way the fact that infringements have continued in the face of an injunction would make the continuing infringements “flagrant”. That was the basis on which PPL invited the court to award additional damages. In his affidavit of 21 March 2017 Mr Dickman, PPL’s solicitor, said:

“PPL also claims additional damages by reason of the flagrancy of the Defendant’s infringements, as apparent from all the facts and matters set out above. In short, despite being aware of the requirement to take a PPL licence, and of the terms of the Order, the Defendant simply failed to obtain one.”

59. In *Sony Computer Entertainment Inc v Owen* [2002] EWHC 45, [2002] EMLR 34 Jacob J said at [28]:

“Section 97 requires the court to have regard to all the circumstances. Those circumstances, to my mind, plainly can include the circumstance that the sales were done in breach of a court order. They make the act flagrant.”

60. I do not agree that the fact that an infringement took place in breach of a court order *automatically* makes the infringement flagrant; although I accept that it usually will. But even if the breach is flagrant, then as Mr Harbottle accepted, the court still has a discretion to decline to award additional damages. In the present case, however, the judge said at [12]:

“On Mr Ellis’ behalf, [counsel] has explained that he is very sorry. He did not intend to breach the order and the reason that the order was breached was due to a misunderstanding by Mr Ellis of the circumstances. I think there is some truth in this because Mr Ellis’s position was always that he was not responsible for what was going on because of the companies and the like that were involved. Nevertheless, as I have said, I am sure the right analysis was, and it has now been admitted, that Mr Ellis was responsible, but I think it is credible that part of the difficulty is a misunderstanding on Mr Ellis’s part of how these things work. Nevertheless, it is something where he could and should have taken some advice earlier.”

61. That, to my mind, is not a finding of flagrancy, which implies scandalous conduct or deceit: Copinger and Skone James on Copyright (17th ed) para 21-300.
62. Accordingly, although I consider that PPL has established the point of principle on which it was given permission to appeal, I joined in the decision to decline to exercise the discretion to award additional damages on the facts of this case, having regard to the only way in which PPL put its case. It is for these reasons that I joined in the decision to dismiss the appeal.

Lady Justice Eleanor King:

63. I agree.

Lord Justice David Richards:

64. I also agree.