

## **Advisory Committee on Enforcement**

### **Fourteenth Session**

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### **JUDICIAL AND PROSECUTORIAL DISCRETION IN INTELLECTUAL PROPERTY INFRINGEMENT PROCEEDINGS**

*Contributions prepared by the Russian Federation, Saint Kitts and Nevis and the  
United Kingdom*

1. At the thirteenth session of the Advisory Committee on Enforcement (ACE), held from September 3 to 5, 2018, the Committee agreed to consider, at its fourteenth session, among other topics, the “exchange of information on national experiences relating to institutional arrangements concerning IP enforcement policies and regimes, including mechanism to resolve IP disputes in a balanced, holistic and effective manner”. Within this framework, this document introduces the contributions of three Member States (the Russian Federation, Saint Kitts and Nevis and the United Kingdom) on judicial and prosecutorial discretion in IP infringement proceedings.

2. The contributions by the Russian Federation and the United Kingdom focus on the exercise of judicial discretion in IP infringement cases. The former considers general principles of the administration of justice that are also central to the handling of IP infringement cases, such as fairness, reasonableness and soundness of judgment, and subsequently focuses on three IP-specific instances that may require the judicial exercise of discretion: the confiscation of counterfeit goods, the publication of information on IP infringements and the determination of the amount of compensation. The contribution by the United Kingdom considers the exercise of judicial discretion specifically in relation to the awarding of additional damages pursuant to Section 97(2) of the United Kingdom Copyright, Designs and Patents Act 1988. In this context, the text discusses criteria to be considered in assessing whether a given IP infringement is flagrant – a precondition of the application of the above provision.

3. The contribution by Saint Kitts and Nevis looks at the exercise of prosecutorial discretion. It discusses the prevalence of cross-border elements in IP infringements and the challenges they pose with regard to jurisdiction; availability, accessibility and admissibility of evidence; and availability of witnesses. The contribution argues that, when deciding whether or not to prosecute IP crimes, such challenges must be weighed against any public interest considerations that may make prosecution crucial (such as the potential seriousness of the IP crime at hand or the risk it may pose to the environment or public health and safety).

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## JUDICIAL DISCRETION IN INTELLECTUAL PROPERTY INFRINGEMENT PROCEEDINGS: THE EXPERIENCE OF RUSSIAN COURTS

*Contribution prepared by Mr. Vladimir Popov, Judge, Supreme Court of the Russian Federation, Moscow, Russia\**

### ABSTRACT

This contribution presents a brief overview of the structure of Russian courts with jurisdiction over intellectual property (IP) infringement cases and describes the recent adoption of a Plenary Ruling of the Supreme Court of the Russian Federation, generalizing judicial practice in this sphere. The contribution considers in detail the notion of judicial discretion and its main principles. It also analyzes situations in which a judge is required to exercise discretion when considering IP infringement cases. Determining liability is one of the vital aspects of court discretion in the consideration of IP infringement cases. This contribution focuses on three examples: confiscation of counterfeit goods, publication of information on infringements and determination of the amount of compensation.

### I. INTRODUCTION

1. The judicial system of the Russian Federation includes two specialized courts with jurisdiction over IP infringement cases: the Intellectual Property Rights Court and the Moscow City Court. The modern structure of courts that hear IP infringement cases in Russia has been discussed in detail in the contribution by Mr. Vyacheslav Gorshkov, Judge at the Supreme Court of the Russian Federation, at the eleventh session of the Advisory Committee on Enforcement (ACE) in 2016<sup>1</sup>.
2. In 2019, the Supreme Court of the Russian Federation completed its long-standing work on harmonizing the application of laws governing IP protection.
3. In order to ensure the proper resolution of IP disputes, the court adopted Ruling of the Plenary Session No. 10 on April 23, 2019, regarding the application of provisions of the Civil Code of the Russian Federation in IP cases<sup>2</sup>. This comprehensive plenary ruling contains 182 items. In particular, for the first time in the history of the Court, it provides the full list of applicable international treaties to which the Russian Federation is a party.
4. In 2018, Russian commercial courts alone dealt with 13,000 IP infringement cases, with the total amount of claims exceeding RUB 18 billion (over EUR 250 million).
5. The present contribution focuses on judicial discretion in the choice of possible legal solutions, limited only by the law and the court's powers. This aspect of the administration of justice is crucial for IP infringement cases.

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\* The views expressed in this document are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

<sup>1</sup> See pp. 7 to 13 of document WIPO/ACE/11/17, available at: [https://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=342836](https://www.wipo.int/meetings/en/doc_details.jsp?doc_id=342836).

<sup>2</sup> The Supreme Court of the Russian Federation Plenary Ruling No. 10 is available in Russian at: <http://www.vsrfr.ru/documents/own/27773/>.

## II. JUDICIAL DISCRETION

6. It is notable that the court should exercise its discretion in a sound, reasonable and fair manner, providing reasons for its decisions.

7. Sound discretion, one of the principles and reliable ethical mechanisms that limit a judge's actions, does not allow for an inappropriate simplification of judicial proceedings, such as the use of simplified language in the text of an official document. If the principle of sound discretion is applied improperly, decisions may be reversed.

8. Reasonable discretion presupposes that the judge has a high degree of legal consciousness and expert knowledge in the specific area in which they administer justice.

9. Many procedural issues arising during the disposal of a case are governed by the corresponding procedural codes (the Criminal Procedure Code, the Civil Procedure Code and the Commercial Procedure Code). Reasonable application of the codified procedural norms is an important principle of the administration of justice.

10. Fairness is the fundamental principle; the basic truth on which anyone may and should rely in court. A formally correct application of legal norms should not produce essentially unfair results.

11. Proper reasoning is a vital principle of judicial discretion. In its case law, the European Court of Human Rights (ECtHR) rightfully acknowledges the right to receive a reasoned judgment as one of the guarantees of the right to a fair trial. In particular, this position has been expressed by the ECtHR in *Van de Hurk v. The Netherlands* (1994), *Ruiz Torija v. Spain* (1994), *Hiro Balani v. Spain* (1994), and *Hadjianastassiou v. Greece* (1992)<sup>3</sup>.

12. Russian procedural codes also contain norms that oblige courts to produce reasoned judicial acts.

13. In the consideration of IP infringement cases, several situations may require a judge to exercise discretion.

14. First, when a judge decides to entertain a lawsuit, he or she determines whether the case may properly be brought before the court, whether the statement of the claim is correctly drafted, whether all the necessary documents are attached and the manner of further consideration of the case (e.g., general or simplified proceedings).

15. Second, the judge determines whether it is necessary and possible to adopt provisional measures. In IP infringement cases, the court may adopt measures aimed at securing the enforcement of the future decision at any stage of the proceedings, if the relevant procedural code so permits.

16. The judge cannot adopt such measures if they are not sought by the plaintiff.

17. If the plaintiff requests the court to order provisional measures in the form of injunctions prohibiting the defendant and others from performing certain acts (in particular, prohibiting the federal executive body responsible for the registration of IP rights from entertaining objections to the granting of legal protection for protectable subject matter, etc.), then the court may order such measures, provided they are directly related to the subject matter of the stated claims,

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<sup>3</sup> *Van de Hurk v. The Netherlands* (1994), Application No. 16034/90, 18 EHRR 481; *Ruiz Torija v. Spain* (1994), Application No. 18390/91, 19 EHRR 553; *Hiro Balani v. Spain* (1995), Application No. 18064/91, 19 EHRR 565; *Hadjianastassiou v. Greece* (1992), Application No. 12945/87, 16 EHRR 219.

and that failure to undertake these exact measures would render it difficult or impossible to enforce a subsequent judicial decision, should the case be resolved in favor of the plaintiff.

18. The adoption of such measures is solely based on judicial discretion. Accordingly, any decision of the judge should be reasoned and substantiated.

19. The evaluation of evidence is another instance in which judicial discretion is employed. Procedural legislation obliges the court to evaluate every piece of evidence contained in the materials of the case, based on a comprehensive, objective and direct inspection of all the evidence in its entirety and the interrelation between the various pieces of evidence. The fact that the evaluation of evidence is based on the inner conviction of the judge does not mean that the court may adopt judicial acts without providing any reasoning.

20. The law does not provide an exhaustive list of admissible evidence in IP infringement cases. Thus, when determining whether an infringement occurred, the court may accept any type of evidence stipulated in procedural legislation, in particular evidence gathered through the use of information and telecommunications networks, including the Internet.

21. For example, printed versions of materials published in such information networks (screenshots) are regarded as admissible evidence where they are produced and certified by the parties to the case and where the address of the printed webpage and the exact time of the printout is indicated. Such printouts are subject to court evaluation along with other evidence.

22. Similarly, the retail purchase and sale of counterfeit goods may be established not only by producing a document confirming payment for the goods, but also through witness testimony, as well as other types of evidence such as audio or video recordings. The consent of the recorded person is not required in order for an audio or video recording to be recognized as admissible evidence.

23. If there are reasons to believe that the production of evidence may subsequently become impossible or difficult, the necessary evidence may be secured by a notary. In particular, a notary may certify the contents of a website at a particular time and on a particular date.

24. Under urgent circumstances, the court may inspect and evaluate the evidence on-site during both the pre-trial and trial stages. For example, the court may inspect the information published on a certain information network resource in real time.

### **III. DETERMINATION OF LIABILITY**

25. One of the most important instances in the exercise of judicial discretion in IP cases is the determination of liability.

26. An IP judge may be faced with three possible situations when deciding on an appropriate remedy: confiscation of counterfeit goods, publication of information about a committed infringement and determination of the amount of compensation for the infringement of exclusive rights.

## A. CONFISCATION OF COUNTERFEIT GOODS

27. Article 1252(4) of the Civil Code stipulates that when the production, distribution or other use, as well as the importation, transportation or storage of IP protected goods infringe the exclusive rights therein, such goods are considered to be counterfeit and may be removed from circulation and destroyed without any compensation whatsoever by virtue of a court decision.

28. Goods may be declared counterfeit only by a court. Where necessary, the court may order an expert examination to clarify issues that require special knowledge. For example, the fact that a medium containing unlawfully processed software is counterfeit may be determined based on the conclusions of an expert, who establishes the signs of such processing.

29. On the other hand, an expert may not be asked to evaluate whether a registered trademark and a label on a particular product are confusingly similar. The court resolves such issues from the viewpoint of an ordinary consumer, who lacks special knowledge about the goods that the registered trademark is supposed to distinguish.

30. If it is established that the defendant is in possession of counterfeit goods, the court decides to remove these goods from circulation and destroy them. If the affected right holder does not request such removal and destruction, the issue is brought to the attention of the parties.

31. In cases where a trademark is placed on goods by the right holder or with the right holder's consent, and those goods are subsequently transferred to the territory of the Russian Federation without the right holder's consent, such goods may be removed from circulation and destroyed as a remedy to trademark infringement only if their quality is improper or to protect public health and safety, the environment and cultural values.

## B. PUBLICATION OF INFORMATION ABOUT AN INFRINGEMENT

32. If the plaintiff in a particular case brings a claim for the publication of the court decision finding an infringement and indicating the actual right holder (Article 1252(1)(5) of the Civil Code), the claim must indicate where exactly the publication should be made and provide reasons for such choice. The defendant may object to the source of publication. When evaluating the arguments of the parties with regard to the suggested source of publication, the court may determine the medium based on the premise that the choice must be aimed at remedying the infringed right (e.g., the decision should be published in the print publication that originally published misleading information about the right holder; in the official bulletin of the federal executive body responsible for IP; in a medium circulated at the location of the production and distribution of the counterfeit goods; or in a medium to be distributed according to the nature and location of the plaintiff's activities).

### C. DETERMINING THE AMOUNT OF COMPENSATION FOR EXCLUSIVE RIGHTS INFRINGEMENT

33. The Civil Code provides for two types of compensation claims:

- compensation of RUB 10,000 to 5,000,000, determined at the court's discretion, and
- compensation amounting to double the value of a respective license to use the protected subject matter or double the value of the counterfeit goods<sup>4</sup>.

34. In general, the court fixes compensation within the limits stipulated in the Civil Code (Article 1252(3)(2)).

35. When seeking compensation at the court's discretion, the plaintiff must substantiate the amount that he or she seeks to recover and considers proportionate to the infringement. This rule does not apply if the plaintiff seeks to recover the minimum compensation.

36. When claiming compensation for double the value of a corresponding license or of the counterfeit copies, the plaintiff must provide the calculations and arguments for the sum sought. The plaintiff must also submit documents confirming the value of a corresponding license or the number of goods and their price. Thus, if the goods were sold or are offered for sale by the infringer on the basis of a wholesale contract, the calculations must be based on the wholesale price of such goods.

37. For example, when seeking compensation in a copyright infringement case, the plaintiff tried to substantiate the amount of compensation sought using two editions of a book published by the defendant: one printed on standard paper with a typical design and the other being a unique large-format edition printed on thick tinted paper with golden edges and gilt-embossed leather binding<sup>5</sup>.

38. In order to confirm the calculations and the value of the infringed right, the plaintiff may provide various data, including from foreign sources. This evidence is evaluated by the court in accordance with the general evidence evaluation rules and does not have priority over other pieces of evidence.

39. The court determines the compensation amount based on the evidence provided by the parties. The awarded compensation may not exceed the claims stated by the plaintiff.

40. The court must justify the amount of damages to be paid. In particular, the court takes into account facts pertaining to the object of the infringed rights (for example, how well-known a certain trademark is to the public); the nature of the infringement (whether the trademark was placed on the goods by the right holder him or herself or by third persons without the right holder's consent, etc.); the duration of unlawful use of the trademark; the nature and degree of the infringer's guilt (including the severity of the infringement and whether it took place repeatedly); potential pecuniary losses of the right holder; and whether the use of third-party IP is a significant element of the infringer's commercial activities. Based on all these factors and the principles of reasonableness and fairness, the court makes a decision on the premise that the amount of compensation must be proportionate to the damage caused by the infringement.

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<sup>4</sup> Articles 1301, 1311, 1406.1, 1515, 1537 of the Civil Code of the Russian Federation.

<sup>5</sup> Ruling of the Ninth Appellate Commercial Court, October 25, 2010, Case No. A40-99593/09.

41. Where one particular IP-protected subject matter is misused through the distribution of several copies, this is regarded as a single infringement if such distribution is within the scope of the single intent of the infringer (e.g., the single intent of the infringer to distribute a batch of infringing copies of one work or counterfeit good). At the same time, each transaction regarding the purchase and sale (exchange, donation) of goods (both identical and non-identical) is characterized as a separate infringement of the exclusive right, unless it is proved that the single intent of the infringer covered the execution of several transactions.

42. The total amount of compensation depends on the number of infringements of exclusive rights in various subject matter. This is why the court needs to clearly determine in relation to which subject matter rights have been infringed. For example, when a sound recording is being infringed, both the exclusive right of the producer of the sound recording in the recording and the exclusive rights of the performer in the underlying performance recorded on the sound recording are taken into account. Thus, pirate copies of sound recordings infringe not only the rights in the musical works (lyrics, if any, and composition), but also the rights of sound recording producers and performers.

43. The Russian Constitutional Court has repeatedly expressed its views on the limits of judicial discretion in determining the amount of recoverable compensation<sup>6</sup>. The Russian Constitutional Court holds that in determining the amount of compensation payable to the right holder in cases of IP infringements, the court, acting to ensure the balance of rights and lawful interests of the parties involved and taking into account the facts of the case, may determine the overall amount below the statutory minimum.

44. The Supreme Court has clarified this position by indicating that the court may not on its own initiative decrease the amount of the compensation below the statutory minimum<sup>7</sup>. The party claiming that such a decrease is necessary must adduce grounds for the court to apply this measure. When decreasing the amount below the statutory minimum, the court must provide reasons for such a decision and refer to the corresponding evidence.

45. This contribution focused only on a few aspects of judicial discretion in IP infringement cases. However, it aimed to describe the main approaches elaborated by the Russian courts in this area.

[End of contribution]

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<sup>6</sup> For example, Ruling No. 28-II/2016 of December 13 2016, a summary of which is available in English at: <http://www.ksrf.ru/en/Decision/Judgments/Documents/Resume13122016.pdf>, and Ruling No.8-P of February 13, 2018, available in Russian at <http://doc.ksrf.ru/decision/KSRFDecision315752.pdf>.

<sup>7</sup> See clarifications given in item 62 of the recent Plenary Ruling of the Supreme Court of the Russian Federation No. 10 of April 23, 2019 (available in Russian at: <http://www.vsr.ru/documents/own/27773>), and item 21 of Case Law Overview No. 3 (2017), adopted by the Presidium of the Supreme Court on July 12, 2017 (available in Russian at: <http://www.supcourt.ru/documents/practice/16241>).



## PROSECUTORIAL DISCRETION IN INTELLECTUAL PROPERTY INFRINGEMENT CASES IN SAINT KITTS AND NEVIS

*Contribution prepared by Mr. Valston Michael Graham, Director of Public Prosecutions,  
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### **ABSTRACT**

Determining whether a person who appears to have committed an intellectual property (IP) crime should be prosecuted, requires a number of considerations and the balancing of competing interests. The use of prosecutorial discretion gives the prosecutor the freedom and authority to make judgments based on the law and on existing circumstances that he or she perceives. The discretion whether or not to prosecute IP crimes is subject to a number of constraints and challenges. This is in large part due to the cross-border nature of many IP infringements, which creates jurisdictional and legal challenges. Such challenges, however, must be duly weighed against the public interest considerations that may favor criminal prosecution.

### **I. INTRODUCTION**

1. According to Article 61 of the Agreement on Trade-Related Aspects of Intellectual Property Rights, members of the World Trade Organization shall provide for criminal procedures and penalties at least in cases of willful trademark counterfeiting or copyright piracy on a commercial scale. Prosecutions of intellectual property (IP) crimes that are not well-founded in law or fact, or which do not serve the public interest, may expose citizens to the anxiety, expense and embarrassment of a trial. Conversely, the failure to effectively prosecute guilty parties can negatively affect the value of IP rights and consequently undermine public confidence in both the industry and the criminal justice system.

2. The decision whether to prosecute is one of the most important decisions that a prosecutor makes in the criminal justice process. This contribution seeks to shed light on the exercise of discretion in cases of IP infringement. First, it examines the general exercise of prosecutorial discretion, and then the approach as it relates specifically to the infringement of IP rights. In this context, it discusses the challenges in prosecuting IP crimes and the public interest considerations that may argue for criminal enforcement, while paying particular attention to civil procedures as a potential alternative to criminal enforcement and the deterring effect of prosecuting IP crimes.

### **II. GENERAL CONSIDERATIONS ON PROSECUTORIAL DISCRETION**

3. The Director of Public Prosecutions (DPP) and those under his or her charge are expected to act fairly, conscientiously and with due regard for the public interest. The prosecutor is expected to apply his or her mind in the decision whether or not to prosecute.

4. In most international and commonwealth jurisdictions, prosecutors enjoy a wide margin of discretion. Most commonwealth constitutions also provide that prosecutorial discretion is to

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be exercised independently. This constitutional entrenchment of the DPP's discretion to prosecute means that there are only limited grounds for challenging whether a prosecution should be brought, under what charges, and, if it has already commenced, whether the prosecution should be stopped. In Saint Kitts and Nevis, for example, the exercise of the DPP's discretion to prosecute is subject only to a limited right of judicial review by the Supreme Court.

5. In light of their entrenched position, prosecutors are expected to be objective, independent and dispassionate in the exercise of their duties, and to exercise such duties in a manner free from any improper influence, including political influence. However, it cannot be ignored that public policy can unwittingly influence the exercise of discretion as to whether or not to prosecute.

6. Prosecutors apply a two-stage test in determining whether to prosecute. They are required to consider both an evidential test and a public interest test in exercising their discretion. Both tests are measured against a non-exhaustive list of factors. If a prosecutor forms the view that there are public interest considerations which militate against prosecution, such prosecution should not commence or if it has already commenced should be discontinued immediately.

### **III. PROSECUTORIAL DISCRETION IN INTELLECTUAL PROPERTY INFRINGEMENT PROCEEDINGS**

#### **A. CHALLENGES**

7. In the Internet age, with increased access to IP-protected content across borders through, for example, social media applications, cross-jurisdictional issues generally weigh heavily in the exercise of prosecutorial discretion.

8. Challenges in the exercise of prosecutorial discretion generally are equally applicable to prosecutorial discretion in respect of IP infringements. In this regard, due consideration must be given to three critical factors. First, the availability and access to evidence in today's global world where the dimensions of IP crimes transcend national borders. Second, the admissibility of evidence to secure prosecution considering sometimes different and incompatible legal frameworks. Third, the availability of reliable witnesses, again bearing in mind the transnational dimension of IP crimes. These are only a few of the factors that present challenges to the exercise of prosecutorial discretion in respect of IP crimes.

9. It is clear from the foregoing that the complex nature of investigations required to successfully prosecute IP offences, coupled with jurisdictional and admissibility issues, continue to pose significant challenges to the prosecution of IP infringements and, by extension, to the exercise of prosecutorial discretion.

10. The difficulty posed by the extraterritoriality of IP crimes, the fast pace of the Internet, a need for comity and harmonization of the legal framework are by no means a new phenomenon. These issues have long been recognized by the Canada Supreme Court in *Pro Swing, Inc. v Elta Golf, Inc.*<sup>1</sup>. The Court stated that "modern-day commercial transactions require prompt reactions and effective remedies. The advent of the internet has heightened the need for appropriate tools"<sup>2</sup> and that "extraterritoriality is a long-recognized concern not only

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<sup>1</sup> *Pro Swing, Inc. v. Elta Golf, Inc.*, [2006] 2 S.C.R. 612.

<sup>2</sup> *Ibid.*, para. 1.

because a law normally applies solely in the jurisdiction where it is enacted, but also because courts lack familiarity with foreign justice systems”<sup>3</sup>.

11. In their *2017/2018 IP Crime and Enforcement Report*, the United Kingdom IP Crime Group highlighted some challenges when they stated:

“Firstly, it is clear that the rapid advances in the digital environment have brought opportunities and risks to consumers. Secondly, although improved cooperation between the enforcement, business and legal communities increases efficiency, challenging fiscal constraints limit the amount of direct enforcement action that can be taken. Thirdly, in a post Brexit world, maintaining strong enforcement partnerships at European and international levels inevitably creates challenges. Fourthly, engaging the public in the fight against IP crime is becoming an increasingly important aspect of our remit”<sup>4</sup>.

## B. PUBLIC INTEREST CONSIDERATIONS

12. Why is it important to prosecute IP infringements? The prosecution of IP crimes may be in the public interest. In their manual *Prosecuting Intellectual Property Crimes*, Jarrett and Chandler<sup>5</sup> note that criminal prosecution safeguards economic and national security interests and protects the health and safety of consumers worldwide.

13. In *Rockwell Graphic Systems, Inc. v. DEV Industries, Inc.*<sup>6</sup> the United States Court of Appeals, Seventh Circuit, observed that “[t]he future of the nation depends in no small part on the efficiency of industry, and the efficiency of industry depends in no small part on the protection of intellectual property”<sup>7</sup>.

14. As David Goldstone points out in his article<sup>8</sup>, the decision whether to prosecute an IP crime may depend on various factors. These factors range from the seriousness of the infringement and health and public safety considerations, on the one hand, to whether the infringement was committed by an individual or an organized criminal group, enforcement priorities, sentencing options and the adequacy of non-criminal alternatives, on the other.

15. Taking these considerations into account, an infringement that potentially creates health, public safety and environmental risks should generally weigh in favor of pursuing criminal sanctions. Similarly, if an infringement has been committed by organized crime groups or is of such a nature that a public deterrent is called for, this should also weigh favorably towards criminal sanctions. On the other hand, an infringement committed by a single individual, or by a few individuals, which only involves a small quantities and does not raise any public interest concerns may not be considered as sufficiently serious to justify the pursuit of criminal sanctions. This is especially so in countries where resources are limited.

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<sup>3</sup> *Ibid.*, para. 53.

<sup>4</sup> IP Crime Group (2018), *IP Crime and Enforcement Report 2017/18*, p. 3, available at: [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/740124/DPS-007593\\_IP\\_Crime\\_Report\\_2018\\_-\\_Web\\_v2.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740124/DPS-007593_IP_Crime_Report_2018_-_Web_v2.pdf).

<sup>5</sup> H. Marshall Jarrett and Cameron G. Chandler (2013), *Prosecuting Intellectual Property Crimes* (Fourth Edition), Office of Legal Education, Executive Office for United States Attorneys, available at: [https://www.justice.gov/sites/default/files/criminal-ccips/legacy/2015/03/26/prosecuting\\_ip\\_crimes\\_manual\\_2013.pdf](https://www.justice.gov/sites/default/files/criminal-ccips/legacy/2015/03/26/prosecuting_ip_crimes_manual_2013.pdf), p. 1.

<sup>6</sup> *Rockwell Graphic Systems, Inc. v. DEV Industries, Inc.*, [1991] 925 F.2d 174 (7<sup>th</sup> Circuit).

<sup>7</sup> *Ibid.*, p. 180.

<sup>8</sup> David Goldstone (March 2001), *Deciding Whether to Prosecute an Intellectual Property Case*, 49 United States Attorneys' Bulletin, pp. 1-8.

16. The danger in adopting a tick-box approach to deciding whether to prosecute is that it can trivialize property rights and minimize or thwart the development and promotion of a comprehensive education program. Such an education program would be necessary for prosecutors with a view to better understanding the factors that should guide use of their discretion but also for society at large with a view to better understanding the potential damage to IP right holders. The other potential negative impact of a tick-box approach is that it can hinder a robust enforcement of IP crimes as a priority.

17. In some countries, IP crime legislation has developed in an *ad hoc* manner that suggests low priority. Against this background, the development of a more comprehensive legal framework, especially for countries with limited resources, would allow such countries to benefit from best practices and lead to a more coherent legislative foundation for the prosecution of IP crimes.

#### C. CIVIL REMEDIES VERSUS CRIMINAL PROSECUTION

18. The availability of civil remedies should not serve as a substitute for prosecution. After all, civil remedies are also available for offences such as theft and bodily injury. Yet, such transgressions attract the initiation of prosecution on a daily basis.

19. According to Jarrett and Chandler,<sup>9</sup> criminal prosecution may offer better deterrence to persistent violators than civil remedies. If counterfeiting and piracy are merely addressed through civil remedies, the violators may simply consider the consequences as a cost of doing business.

20. The exercise of discretion as to whether or not to prosecute an IP crime should be treated with the same level of commitment and dedication as any other crime. In this regard, all relevant factors, including those generally taken into account in respect of other crimes, should be considered.

#### D. THE DETERRENT EFFECT OF PROSECUTION

21. Deterrence must be a focal point in the protection of IP rights through criminal measures. The inclination to prosecute IP crimes sends an appropriate message that the infringement of such rights should not be condoned but should rather be punished.

22. As with most crimes, deterrence, both specific and general, is an important pacesetter for compliance with the law. Criminal prosecution for infringements of IP rights plays an important role in ensuring the public's respect for such rights. Jarrett and Chandler rightly recall that more individuals would be deterred from engaging in IP crimes if they believed they would be investigated and prosecuted<sup>10</sup>.

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<sup>9</sup> *Prosecuting Intellectual Property Crimes* (2013), *op. cit.*, p. 393.

<sup>10</sup> *Ibid.*, p. 393.

## VI. CONCLUSION

23. Notwithstanding the challenges highlighted above, the exercise of prosecutorial discretion must be done in a manner that provides protection for the rights of property owners and the public, while simultaneously acting as a deterrent to individuals and entities who seek to benefit illegally through IP infringement.

24. Four driving factors should be weighed against the challenges relating to IP crimes prosecutions. First, challenges in the prosecution of IP crimes must be balanced against the potential hazard to consumer health and safety. Second, prosecutorial discretion must take into account possible damages to the environment. Third, the negative effect that IP crimes pose to legitimate revenue streams must also be considered. Fourth, IP crime prosecutions must be used to counteract the opportunities that such crimes create for money laundering and organized crime.

25. In small jurisdictions such as the Caribbean, the lack of education about and sensitization to IP rights, coupled with a strain on resources and a greater focus on tackling gun-related crimes, have overshadowed the importance of prosecuting IP infringements. Nevertheless, the enthusiasm and efforts of the Intellectual Property Rights Office in Saint Kitts and Nevis are noteworthy. Recent amendments in legislation, educational activities for entrepreneurs on the registration of property rights and the provision of training for both public and private sector representatives give hope that the exercise of discretion in favor of prosecuting IP crimes will attract greater focus and importance in the future.

[End of contribution]

## EXERCISING THE DISCRETION TO GRANT ADDITIONAL DAMAGES UNDER SECTION 97(2) OF THE UNITED KINGDOM COPYRIGHT DESIGNS AND PATENTS ACT 1988

*Contribution prepared by Ms. Charlotte Hart, District Judge of the Intellectual Property Enterprise Court, Business and Property Courts of England and Wales, High Court of Justice, London, United Kingdom\**

### ABSTRACT

In infringement of copyright proceedings, a right holder who is seeking damages may seek an award of additional damages under Section 97(2) of the United Kingdom Copyright Designs and Patents Act 1988. The courts have found it difficult to decide upon the nature of such damages. The Court of Appeal has now ruled that Section 97(2) allows the court a wide discretion, which is more flexible than the common law classifications of aggravated damages (which are compensatory) and exemplary damages (which are punitive). Additional damages may include an element of restitution. The award may also be solely punitive, provided it does not amount to an abuse of the infringer's rights. There is little guidance on the quantification of additional damages awarded under Section 97(2), which may result in inconsistency and uncertainty for litigants. There appears to be no bar to an award being made by way of a percentage uplift on ordinary damages.

### I. INTRODUCTION

1. In a civil claim brought for the infringement of copyright under the United Kingdom Copyright Designs and Patents Act 1988 (the Act), the right holder may seek either an account of the profits made by the infringer from his/her wrongdoing or an award of damages. Ordinary compensatory damages (ordinary damages) are intended in so far as possible to restore the right holder to the position that he or she would have been in had the wrong not been sustained<sup>1</sup>. The right holder must establish his/her loss on the balance of probabilities and is entitled to recover that loss which was foreseeable, caused by the wrong and is not excluded from recovery on policy grounds.

2. In many copyright cases, ordinary damages are assessed by reference either to the royalty or license fee that should have been paid or (where there is no normal royalty/fee) by reference to the user principle. This is the notional license fee that the right holder and the infringer would have agreed upon as willing parties to a hypothetical negotiation concluded immediately prior to the infringement<sup>2</sup>.

### II. SECTION 97(2) OF THE COPYRIGHT DESIGNS AND PATENTS ACT 1988

3. In an appropriate case, the right holder may be awarded additional damages under Section 97(2) of the Act. This provides that:

“The court may in an action for infringement of copyright having regard to all the circumstances, and in particular to:

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\* The views expressed in this document are those of the author and not necessarily those of the Secretariat or of the Member States of WIPO.

<sup>1</sup> *Livingstone v Rawyards Coal Co.* (1880) 5 App's Cas., 25.

<sup>2</sup> *General Tire & Rubber Co. v Firestone Tyre & Rubber Co. Ltd* [1975] 1 W.L.R. 819.

- (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. The term “flagrant” is defined in the Oxford English Dictionary as “conspicuously or obviously offensive”. In the context of copyright infringement, flagrancy has been held to involve scandalous conduct or deceit, including deliberate and calculated infringement<sup>3</sup>. The concept of flagrancy focuses the court’s considerations on the conduct of the infringer and whether this demonstrates deliberate infringement, including:

- the manner in which the copyright work was obtained/copied;
- the manner of the infringement; and
- the infringer’s willingness, when challenged, to desist and co-operate in limiting the damage to the right holder.

5. Damages under Section 97(2)(b) are often sought where the direct profit from the infringement is not such that the right holder prefers to elect an account of profits, but there is a wider benefit that has accrued to the infringer. That wider benefit may include the acquisition by the infringer of goodwill or establishing a presence in a particular market. In *Absolute Lofts v Artisan Home Improvements*<sup>4</sup> the infringer had displayed on its website images of loft conversions carried out by the right holder, thereby misrepresenting the right holder’s craftsmanship as its own. Since the two businesses were at a geographical distance and therefore not in competition, the right holder suffered no financial loss to his business from the infringement. Nevertheless, additional damages were awarded to reflect the prejudice suffered by the right holder in not having shared in the benefit that the infringer had enjoyed from exploiting the images.

6. The right holder is not obliged to satisfy either Section 97(2)(a) or (b) as a pre-condition of an award. They are no more than factors in deciding what the justice of the case requires in all the circumstances. Thus, additional damages may be awarded where the infringer’s conduct falls short of flagrancy but amounts to a “couldn’t care less” attitude<sup>5</sup>. On the other hand, a deliberate exploitation of the right holder’s copyright for commercial advantage was found not to be sufficient to merit additional damages where the infringer had tried, unsuccessfully, to stay within the law<sup>6</sup>.

7. A right holder may elect to rely on the more advantageous of Section 97(2) of the Act or Article 13(1) of the European Enforcement Directive<sup>7</sup>. This Directive<sup>8</sup> introduces a degree of harmonization to the assessment of damages by defining the minimum standard of protection which member states of the European Union (EU) are required to make available against an infringer who knowingly, or with reasonable grounds to know, engages in infringing activity. As implemented into domestic law<sup>9</sup>, it creates a “floor” for that remedy, rather than a “ceiling”. In

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<sup>3</sup> Brightman J in *Ravenscroft v Herbert* [1980] RPC 193.

<sup>4</sup> [2015] EWHC 2608 (IPEC).

<sup>5</sup> Pumfrey J in *Nottinghamshire Healthcare NHS Trust v News Group Newspapers Ltd* [2002] RPC 49.

<sup>6</sup> *English and Welsh Cricket Board v Tixdaq Ltd* [2016] EWHC 575 (ch).

<sup>7</sup> *P.P.L. v Ellis* [2018] EWCA Civ 1308.

<sup>8</sup> Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights, available at: <http://data.europa.eu/eli/dir/2004/48/oj>.

<sup>9</sup> Regulation 3 of the Intellectual Property (Enforcement, etc.) Regulations 2006, SI 2006/1028.

cases of obviously scandalous conduct, the express obligation on the court in Section 97(2) of the Act to have regard to flagrancy, which is not referred to in Article 13(1) of the Enforcement Directive, may prove advantageous to the right holder.

### III. THE NATURE OF ADDITIONAL DAMAGES UNDER SECTION 97(2) OF THE ACT

8. Both commentators<sup>10</sup> and judges have struggled with the nature and purpose of additional damages. There has been much discussion of whether an award under Section 97(2) of the Act (or its predecessor Section<sup>11</sup>) is rightly to be regarded as one of aggravated or exemplary damages. Aggravated damages are awarded for mental distress where a tort has been committed in a manner or with a motive that has aggravated the injury. They are accordingly compensatory. Exemplary damages are intended to punish. The circumstances in which they may be awarded were clarified by Lord Devlin in *Rookes v Barnard*<sup>12</sup> and include:

- “whenever it is necessary to teach a wrongdoer that tort does not pay”; and
- where authorized by statute.

9. Lord Devlin expressly declined to decide whether additional damages awarded under the predecessor Section to Section 97(2) of the Act were exemplary damages authorized by statute.

10. The issue is not purely academic, but is relevant to the quantum of damages that may be awarded. Despite this, the uncertainty as to whether additional damages were compensatory or could also be solely punitive persisted for decades. A compensatory approach presented no difficulty in cases where the infringer’s conduct and attitude obviously aggravated the injury felt by the right holder. Further, where there was injury to the feelings of close family members, the courts have been willing to adopt a flexible approach and have awarded aggravated damages to the right holder in a sum which took the injury to wider family members into account<sup>13</sup>.

11. In other factual circumstances, however, it was difficult to justify additional damages as purely compensatory. The infringer’s flagrant conduct does not always cause injury to the right holder’s feelings. A prime example is where the right holder is not a natural person and accordingly has no feelings which may be injured. In such circumstances, aggravated damages cannot arise<sup>14</sup>. Commentators pointed out that in cases where additional damages have been granted to a non-natural right holder in respect of flagrant conduct<sup>15</sup>, logic dictates that the award was exemplary in nature.

12. Further, an award of additional damages as a result of the benefit which has accrued to the infringer (Section 97(2)(b) of the Act) may be most easily classified as restitutionary in nature.

13. The issue has at last been authoritatively determined by the Court of Appeal in *P.P.L. v Ellis (trading as Bla Bla Bar)*<sup>16</sup>, in which it was held that additional damages awarded

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<sup>10</sup> Joshua Marshall (2017), *Aggravated or Exemplary Damages for Copyright Infringement?*, European Intellectual Property Review, p. 565.

<sup>11</sup> Section 17(3) Copyright Act 1956, which contained the additional requirement that the court must be satisfied that effective relief would not otherwise be available to the right holder.

<sup>12</sup> House of Lords: [1964] AC 1129.

<sup>13</sup> *Williams v Settle* [1960] 2 All ER. 806.

<sup>14</sup> *Eaton Mansions (Westminster) Ltd v Stringer Compania de Inversion SA* [2013] EWCA Civ 1308.

<sup>15</sup> *MCA v Charly Records* [2000] E.M.L.R. 743 Ch D. and [2001] EWCA Civ 1441.

<sup>16</sup> [2018] EWCA Civ 1308.



under Section 97(2) of the Act may be partly or wholly exemplary. They may also be restitutionary in nature or made by way of disgorgement damages. The Court of Appeal acknowledged the valuable purpose that additional damages served in deterring both the particular infringer and potential infringers. The court concluded that it was unnecessary to shoehorn the court's discretion under the section precisely into the principles familiar to the common law. Additional damages, being statutory, were *sui generis*.

#### IV. THE QUANTUM OF DAMAGES

14. Section 97(2) of the Act provides the court with no guidance as to the quantum of damages to be awarded. The breadth of the discretion confirmed by *Ellis* carries the risk of inconsistent decision-making and uncertainty for litigants in relation to quantum. The Court of Appeal warned only that a "particularly egregious" award of exemplary damages might amount to an abuse of the infringer's rights. The decision also confirms that the court may impose exemplary additional damages even when the infringer faces separate criminal proceedings carrying penalties of a financial nature. The court's only obligation is to ensure that the infringer does not pay twice in respect of the same damage.

15. However, in exercising its discretion, the court will still need to have in mind whether its award of additional damages is compensatory or punitive in nature. Where punitive damages are awarded, it is appropriate to consider aspects irrelevant to compensatory damages, such as mitigation personal to the wrongdoer and his ability to pay<sup>17</sup>.

16. The best available guidance on quantum is to be found by considering the amounts awarded in reported cases. However, there are a limited number of such cases and each turns on its own facts. It is perhaps unsurprising that judges sometimes find it convenient to express awards under Section 97(2) of the Act in terms of a percentage uplift or mark-up on the royalty or notional license fee awarded by way of ordinary damages<sup>18</sup>. While this will not be the most suitable approach in every case, it neither appears to be precluded under EU law<sup>19</sup> nor to fall outside the wide discretion acknowledged by the Court of Appeal in *Ellis*.

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<sup>17</sup> *Michael O'Mara Brooks v Express Newspapers* [1999] F.S.R. 49.

<sup>18</sup> *Peninsular Business Services Ltd v Citation Plc* [2004] F.S.R. 17 (H.H.J. Maddocks).

<sup>19</sup> *Stowarzyszenie Oławska Telewizja Kablowa* (Case C-367/15).